DEBENHAMS

Half Year Results and Strategy Presentation

20 April 2017
SIR IAN CHESHIRE
Chairman
HIGHLIGHTS

• First set of results under new leadership

• Strong peak performance delivers results in line with expectations

• Pension into surplus

• Dividend maintained

• Uncertain market background

• Announcing exciting, ambitious new strategy: Debenhams Redesigned
## Financial Headlines

<table>
<thead>
<tr>
<th>Metric</th>
<th>H1 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group gross transaction value</td>
<td>+2.9%</td>
</tr>
<tr>
<td>Constant currency group LFL sales</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Group LFL sales</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Gross margin rate</td>
<td>(30 bps)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>£87.8m</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>5.8p</td>
</tr>
<tr>
<td>Net debt</td>
<td>£216.9m</td>
</tr>
<tr>
<td>Pension surplus</td>
<td>£46.8m</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>1.025p</td>
</tr>
</tbody>
</table>
OPERATIONAL HEADLINES

• Strong growth in non clothing categories, especially Beauty and Gift over peak

• Full price sales growth of 2% and markdowns improve for sixth season in a row

• Strong momentum in online sales, driven by mobile demand growth

• 75% of space optimisation programme completed for peak trading

• On track to complete programme by Autumn/Winter 2017

Full price sales growth 2%

Online sales growth 15%

Markdown improvement +50bps
## RESULTS IN LINE WITH EXPECTATIONS

<table>
<thead>
<tr>
<th></th>
<th>H1 17</th>
<th>Variance vs. H1 16</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UK</td>
<td>Int’l</td>
</tr>
<tr>
<td><strong>Gross transaction value</strong></td>
<td>1,344.7</td>
<td>331.8</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>118.0</td>
<td>31.1</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>67.5</td>
<td>26.4</td>
</tr>
<tr>
<td><strong>Net finance cost</strong></td>
<td>(6.1)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>87.8</td>
<td></td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(16.2)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>71.6</td>
<td></td>
</tr>
<tr>
<td><strong>Earnings per share</strong></td>
<td>5.8p</td>
<td></td>
</tr>
</tbody>
</table>
Online drives growth. Positive sales impact from currency

<table>
<thead>
<tr>
<th>Contribution to LFL %</th>
<th>Online Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>0.4%</td>
</tr>
<tr>
<td>International</td>
<td>(0.3%)</td>
</tr>
<tr>
<td>Constant Currency</td>
<td>0.1%</td>
</tr>
<tr>
<td>Reported</td>
<td>3.0%</td>
</tr>
<tr>
<td></td>
<td>+14.6% vs LY</td>
</tr>
<tr>
<td></td>
<td>GTV £281.9m</td>
</tr>
</tbody>
</table>
## Sales growth in beauty and gift offset markdown benefit

### Group gross margin (bps)

<table>
<thead>
<tr>
<th></th>
<th>H1 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intake</td>
<td>+10</td>
</tr>
<tr>
<td>Markdown</td>
<td>+50</td>
</tr>
<tr>
<td>Sales mix¹</td>
<td>(90)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(30)</td>
</tr>
</tbody>
</table>

¹Includes brand mix and category mix

### Own bought mix (%)

<table>
<thead>
<tr>
<th></th>
<th>H1 17</th>
<th>H1 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>77.6%</td>
<td>79.4%</td>
</tr>
<tr>
<td>International</td>
<td>62.2%</td>
<td>62.6%</td>
</tr>
<tr>
<td>Group</td>
<td>74.5%</td>
<td>76.3%</td>
</tr>
</tbody>
</table>

DEBENHAMS
MITIGATING CURRENCY IMPACT

Currency rates

- Better buying
- Alternative sourcing
- Reduced markdown
- Competitive prices
- Hedging cover for majority of FY18
Costs well controlled and in line with guidance

<table>
<thead>
<tr>
<th></th>
<th>% change vs LY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK</strong></td>
<td></td>
</tr>
<tr>
<td>Store costs</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Online costs</td>
<td>+7.0%</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
</tr>
<tr>
<td>Store + online costs</td>
<td>+15.2%</td>
</tr>
<tr>
<td><strong>Other costs</strong></td>
<td>+1.7%</td>
</tr>
<tr>
<td><strong>Total operating costs</strong></td>
<td>+3.6%</td>
</tr>
</tbody>
</table>

Note: Constant currency operational cost increase is +1.3%
**Good Cash Generation**

<table>
<thead>
<tr>
<th></th>
<th>H1 17 £m</th>
<th>H1 16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>93.9</td>
<td>99.6</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>55.2</td>
<td>53.4</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>149.1</strong></td>
<td><strong>153.0</strong></td>
</tr>
<tr>
<td>Working capital</td>
<td>7.1</td>
<td>34.0</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(47.5)</td>
<td>(53.5)</td>
</tr>
<tr>
<td><strong>Cash flow before financing &amp; taxation</strong></td>
<td><strong>108.7</strong></td>
<td><strong>133.5</strong></td>
</tr>
</tbody>
</table>
## Group closing stock value
### H1 17 vs. H1 16

<table>
<thead>
<tr>
<th>Category</th>
<th>H1 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like-for-like stock</td>
<td>(4.2%)</td>
</tr>
<tr>
<td>Currency impact</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total stock vs. last year</strong></td>
<td><strong>(3.4%)</strong></td>
</tr>
<tr>
<td>Terminal stock</td>
<td>2.8%</td>
</tr>
</tbody>
</table>
C A P I T A L  I N V E S T M E N T  M I X  I N T O  S Y S T E M S

H1 17
- £47.5m
  - 56% New UK stores
  - 11% UK store modernisations
  - 20% UK maintenance
  - 5% International
  - 8% Other

H1 16
- £53.5m
  - 40% New UK stores
  - 8% UK store modernisations
  - 24% UK maintenance
  - 7% International
  - 4% Other

Legend:
- New UK stores
- UK store modernisations
- UK maintenance
- International
- Other
**Improvement in Net Debt and Maintained Leverage Ratio**

<table>
<thead>
<tr>
<th></th>
<th>H1 17</th>
<th>H1 16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow before financing &amp; taxation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses of cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Taxation</td>
<td>(8.7)</td>
<td>(1.5)</td>
</tr>
<tr>
<td>• Financing</td>
<td>(6.7)</td>
<td>(6.2)</td>
</tr>
<tr>
<td>• Dividends paid</td>
<td>(29.4)</td>
<td>(29.5)</td>
</tr>
<tr>
<td>Other lease/non-cash movements</td>
<td>(1.8)</td>
<td>(0.7)</td>
</tr>
<tr>
<td><strong>Change in net debt</strong></td>
<td>62.1</td>
<td>95.6</td>
</tr>
<tr>
<td>Opening net debt</td>
<td>279.0</td>
<td>319.8</td>
</tr>
<tr>
<td>Closing net debt</td>
<td>216.9</td>
<td>224.2</td>
</tr>
<tr>
<td><strong>Leverage ratio</strong>*</td>
<td>0.9x</td>
<td>0.9x</td>
</tr>
</tbody>
</table>

*Net debt/EBITDA (last 12 months)*
**Summary of Guidance for 2017**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group gross margin</td>
<td>c (25bps)</td>
</tr>
<tr>
<td>Total costs</td>
<td>+3% to +4%*</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>c.£110m</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>£13m-£15m</td>
</tr>
<tr>
<td>Taxation</td>
<td>c.20%</td>
</tr>
<tr>
<td>Capex</td>
<td>c.£130m</td>
</tr>
<tr>
<td>Net debt</td>
<td>c.£260m</td>
</tr>
</tbody>
</table>

*+1% to +2% on constant currency basis*
DEBENHAMS Redesigned

DESTINATION | DIGITAL | DIFFERENT
WHAT WORKS

• 19m customers, 97% brand awareness

• **Wide choice** of products and exclusive brands - especially Designers@Debenhams

• **Market-leading** positions in premium beauty, occasionwear, handbags, swimwear

• Popular **big event** promotions

• One of the **most visited** UK online retailers with 200m+ visits last year

• Profitable **international** business

“It has lots of different brands - designer, high street and own brand which appeals to me”
THINGS THAT NEED FIXING

• Customer service
• Store clutter and visual merchandising
• Product & brand differentiation
• Online experience
• Pricing & promotions
• Some under-performing stores
• Mobile platform needs upgrading

“Debenhams is like a treasure hunt, there’s some great stuff - but you have to look for it”
How customers shop fashion & beauty

- It’s about **great product**
- It’s about the **journey**
- It’s **mobile everywhere**
- It’s **sociable**
- It’s **social media**

“Shopping these days tends to be an all day experience, you go for lunch and coffee as well, rather than just going for the sake of shopping”
How Customers Shop - Leisure & Convenience

Growth in Leisure vs. Retail
4% vs 2.6%

Leisure ≥ Convenience
65% of women

40% shop with family or friends

+80% £ spend when with friends

Source: OC&C Survey, Mintel Leisure Review, Mintel Retail Report, Euromonitor, OC&C analysis
Our customers tell us - Mobile

Customers mainly use mobiles for:

- Browsing: 67%
- Research: 64%
- Checking logistics: 75%
- Social: 71%

18% of mobile shoppers make an immediate transaction

...a further 18% do it later

“I use my mobile for shopping, inspiration, research, fun and to share things with my friends!”

Source: OC&C Consumer Survey powered by Toluna
OUR MISSION

“To make shopping confidence-boosting, sociable and fun”

To create the easiest way to help our customers look good, feel great and celebrate their love of shopping
GROWTH FROM SOCIAL SHOPPING

• High value customers visit us more frequently
• Customers recognise us for leisure shopping
• A broader, mobile-connected shopping experience can unlock growth by driving frequency...

Mobile + Food & Drink + Product PLUS experience

Social Shopping
Creating Shareholder Value

Social Shopping

Destination

Digital

Different

Simplify & Focus

Efficiency

Growth

Shareholder Value
GROWTH BY BECOMING A DESTINATION

Social Shopping

- Beauty Products & Services
- Fashion via Accessories
- Meet Me @ Debenhams

Simplify & Focus
DESTINATION - BEAUTY PRODUCTS & SERVICES

Today
• #1 in Premium Make-up
• #2 in Premium Beauty
• Go-to partner for key brands

Future
• Market leader in Premium Beauty & Services - grow to a £1bn business
• Over 400 new offers in next 3 years
• Preferred destination in all channels
• Drive share in c.£4bn beauty services market
Today

• #1 in Handbags, Swimwear and costume jewellery

• Lower customer consideration for some other categories

Future

• Bringing the spirit of the Beauty Hall into Accessories

• Major opportunity in Footwear

• Fast, efficient, friendly in-store service

• Lingerie proposition redesigned
DESTINATION – MEET ME @ DEBENHAMS

Today

• Improving food offer with some brand introductions

Future

• Create exciting store environments - especially in major markets

• Step-change food and drink:
  - new food formats and brands
  - expand existing partners

• Be the nationwide destination for shopping events
GROWTH FROM DIGITAL

Social Shopping

• Mobile @ everywhere
• Click, Collect and Play
• Broaden our Reach

Simplify & Focus
DIGITAL - MOBILE @ EVERYWHERE

Today

• Strong growth in mobile demand - up 64% in H1

• Improving conversion rates

Future

• Mobile to unify channels

• Build closer customer relationships

• Leverage data to personalise customer experience

• New platform to support change
DIGITAL – CLICK, COLLECT & PLAY

Today

• Continued growth in multi-channel penetration
• 30% of online orders
• Drives store footfall

Future

• From functional & reliable to engaging & sociable
• Enhance in-store service proposition - link with personal shopping and styling
• Potential strategic partnerships
Digital - Broaden our Reach

Today

• Majority international sales via stores

• Delivering to 60 countries worldwide

• Now selling via some third party partners

Future

• Just launched on Amazon UK Prime, Amazon.de in June

• Targeting new third party partners reaching different demographic/market eg Zalando, Zalora

• Magasin building online scale
GROWTH FROM BEING DIFFERENT

Social Shopping

• Designers @ Debenhams
• Brand creation & distribution
• Innovation & culture

Simplify & Focus
**Different – Designers @ Debenhams**

**Today**

- Designer-led exclusive brands are relevant and point of differentiation
- Need newness and innovation

**Future**

- Portfolio approach to brand management, inject new talent
- Leverage infrastructure to build business and brand equity
- Build designer brands with external and international appeal
Diferent - Brand Creation & Distribution

Today

• Too many SKUs and brand overlap
• Ranging to fill fixtures and store size

Future

• Build brand ranges for online first
• Customer/online catchment data to edit store ranges
• Better differentiated brands with brand equity
• Global distribution of our best brands
Today

• ‘Head office’
• Opinion-led
• Risk averse

Future

• Support Centre
• Data informed/Tech savvy
• Creatively inspired
• Innovative and agile
• Strategic Partnerships
EFFICIENCY FROM **SIMPPLY & FOCUS**

- **Social Shopping**

  - **Destination**
  - **Digital**
  - **Different**

**Simplify & Focus**

- Store estate strategy
- Simplify the operating model
- More efficient use of resources
Today

• 176 UK and Irish stores, most in good long-term locations

• No tail of loss-makers

Future

• Segment stores, develop clear strategy by location

• Test potential for Outlet stores

• Review for potential closure up to 10 stores over five year period

• Invest in flagships and in major shopping destinations

• Refresh and remerchandise the rest
Simplify & Focus - Operating Model

Today

• Product push vs customer pull
• 50% of legacy systems replaced

Future

• Focus on quality of execution
• Reduce complexity/increase flexibility of supply chain
• Accelerate warehouse automation
• Complete IT legacy system replacement
• New platform/partnerships to enable mobile and data analytics
Simplify & Focus – Better Use of Resources

Today

• Colleagues task-based rather than customer-focused

• High stock density in stores

Future

• Shifting resource from back office to customer facing

• 2,000 more staff serving customers

• More efficient stock flows - replenishment cut from 8 to 2 days

• Review of warehousing facilities
Today

• Some large strategic partners
• Long tail of smaller ones, some unprofitable
• Magasin du Nord successful

Future

• Rationalise underperforming markets
• Leverage and grow successful partnerships
• Grow online globally, with broader distribution of exclusive brands
• Exploit Debenhams Redesigned
• Magasin selling Scandi brands online

*The new Debenhams, Avenues Mall, Kuwait - Opens Spring 2018*
SHORT TERM PLAN - FIX THE BASICS

- 2,000 colleagues switching to customer-facing roles
- Adding customer service metrics KPIs
- From head office to support centre
- Reducing SKU count and decluttering stores
- Replenishment time cut from eight days to two
- Consultation started for closure of one central DC and 10 regional warehouses
**STRATEGY TIMEFRAME**

<table>
<thead>
<tr>
<th>Years</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4 &amp; 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fix the Basics</td>
<td>Test</td>
<td>Roll-out</td>
<td>Simplify &amp; Focus</td>
<td>Exit</td>
</tr>
<tr>
<td><strong>Today</strong></td>
<td><strong>Fix the Basics</strong></td>
<td><strong>Test</strong> Visual merchandising brand/store formats</td>
<td><strong>Roll-out</strong> New brands, experiences and services store formats and presentation</td>
<td><strong>Exit</strong> Selected brands, stores, markets</td>
</tr>
</tbody>
</table>

**Debenhams Redesigned**
PROVISIONAL GUIDANCE FOR FY2018 AND BEYOND

• Total capital expenditure of c.£150m pa in the three years to FY20

• Maintain capital structure with net debt expected to be at FY16 level of c.£280m to FY20 before improving thereafter

• Total exceptional costs of c.£50m during the three years to FY20, with approximately half being cash costs

• Dividend policy
  - FY17 interim dividend of 1.025 pence (FY16: 1.025 pence)
  - Aim for dividend cover at approximately 2.0x underlying earnings
Summary ... Debenhams Redesigned

Social Shopping

Destination
- Beauty Products & Services
- Fashion via Accessories
- Meet Me @ Debenhams

Digital
- Mobile @ everywhere
- Click, Collect and Play
- Broaden our Reach

Different
- Designers @ Debenhams
- Brand creation & distribution
- Innovation & Culture

Simplify & Focus
- Store estate strategy
- Simplify the operating model
- More efficient use of resources

Shareholder Value
<table>
<thead>
<tr>
<th></th>
<th>H1 17 £m</th>
<th>FY 16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension scheme assets</td>
<td>1,089.3</td>
<td>1,057.6</td>
</tr>
<tr>
<td>Pension scheme liabilities</td>
<td>(1,042.5)</td>
<td>(1,061.7)</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>46.8</td>
<td>(4.1)</td>
</tr>
</tbody>
</table>
**Summary of Cash Flow Generation**

<table>
<thead>
<tr>
<th></th>
<th>H1 14 £m</th>
<th>H1 15 £m</th>
<th>H1 16 £m</th>
<th>H1 17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>144.6</td>
<td>151.0</td>
<td>153.0</td>
<td>149.1</td>
</tr>
<tr>
<td>Financing</td>
<td>(6.3)</td>
<td>(9.9)</td>
<td>(6.2)</td>
<td>(6.7)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(15.8)</td>
<td>0.6</td>
<td>(1.5)</td>
<td>(8.7)</td>
</tr>
<tr>
<td>Other</td>
<td>(9.2)</td>
<td>3.9</td>
<td>34.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Net Capital investment</td>
<td>(62.8)</td>
<td>(51.4)</td>
<td>(53.5)</td>
<td>(47.5)</td>
</tr>
<tr>
<td><strong>FREE CASHFLOW</strong></td>
<td>50.5</td>
<td>94.2</td>
<td>125.8</td>
<td>93.3</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(29.4)</td>
<td>(29.4)</td>
<td>(29.5)</td>
<td>(29.4)</td>
</tr>
<tr>
<td>Share buy back</td>
<td>(15.1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>(4.9)</td>
<td>(0.6)</td>
<td>(0.7)</td>
<td>(1.8)</td>
</tr>
<tr>
<td><strong>NET CASHFLOW</strong></td>
<td>1.1</td>
<td>64.2</td>
<td>95.6</td>
<td>62.1</td>
</tr>
<tr>
<td><strong>NET DEBT</strong></td>
<td>370.9</td>
<td>297.3</td>
<td>224.2</td>
<td>216.9</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>1.6x</td>
<td>1.3x</td>
<td>0.9x</td>
<td>0.9x</td>
</tr>
</tbody>
</table>
## Space and Store Numbers

<table>
<thead>
<tr>
<th></th>
<th>Owned space (000 sq ft)</th>
<th>UK owned stores</th>
<th>Int'l owned stores</th>
<th>Int'l franchise stores</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 16 close</td>
<td>13,056</td>
<td>165</td>
<td>17</td>
<td>68</td>
<td>250</td>
</tr>
<tr>
<td>Space reduction</td>
<td>(14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise openings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Franchise closures</td>
<td></td>
<td></td>
<td></td>
<td>(6)</td>
<td>(6)</td>
</tr>
<tr>
<td>H1 FY 17 close</td>
<td>13,042</td>
<td>165</td>
<td>17</td>
<td>65</td>
<td>247</td>
</tr>
</tbody>
</table>
SOURCES OF FUNDING

• Revolving credit facility (‘RCF’) of £320m, in place to June 2020 with an option to extend to June 2021

• £200m 5.25% senior bond, in place to July 2021
CASH TAX

• Adopting FRS 101 “Reduced disclosure framework” accounting in subsidiary level companies over FY14 and FY15 provided a cash tax credit

• Under UK GAAP, lease incentives are capitalised and amortised to the first lease break point but under FRS 101 lease incentives are amortised over the life of the lease.

• Cash tax in FY16 was a £11.0m outflow reflecting normalised tax payments in H2.

• Estimated cash tax outflow c.£20m in FY17