Debenhams plc, the leading international, multi-channel brand, today announces its interim management statement for the 15 weeks to 14 June 2014. Due to a change in the timing of this year’s summer sale, we are also providing sales data for the 14 weeks to 7 June 2014 which we believe provides a more accurate view of our performance across the second half of the financial year.

Headlines

- Group gross transaction value: 14 weeks up 1.6% (15 weeks flat)
- Group like-for-like sales: 14 weeks up 0.7% (15 weeks down 1.0%)
- Continued growth in online and strong performance from international business
- Gross margin guidance for full year unchanged
- Strategy to refocus promotional activity delivering higher full price sell-through: summer sale starting two weeks later than last year
- Trials of new concessions including Sports Direct and Costa to commence before year end
- Commencing debt investor roadshow in relation to £200m 7 year bond issue

Michael Sharp, Chief Executive of Debenhams, said:

“The foundation of our business is the strength of our product proposition which meets our customers’ needs for choice, quality and value. In April we set out five priorities to address the challenges that Debenhams faced in the first half of the year. Our performance in the second half reflects the work we have done, particularly to refocus our promotional activity. Although early days, this strategy is delivering higher full price sales and we expect to see the benefit through gross margin progression in the second half of the year and in 2015.

“Looking forward, whilst it is clear that consumers are aware of improvements in economic indicators, they are not yet seeing a significant improvement in their disposable income. Our outlook for the full year remains unchanged.”

Sales performance

In line with the strategy to refocus our promotional activity which was outlined at the time of our interim results in April, the summer sale is scheduled to start on 26 June (week 43) this year compared to 12 June (week 41) last year. Therefore, as well as providing sales data for the 15 weeks to 14 June 2014, we are also providing information for the 14 weeks to 7 June 2014 which we believe gives a more accurate view of our performance during the second half.

The movement in gross transaction value (GTV) and like-for-like sales for the second half to date and the year to date are shown in the table below.

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<tr>
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<th>Second half</th>
<th>Year-to-date</th>
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<tbody>
<tr>
<td></td>
<td>14 wks to 7 June</td>
<td>15 wks to 14 June</td>
</tr>
<tr>
<td>Group GTV</td>
<td>+1.6%</td>
<td>Flat</td>
</tr>
<tr>
<td>Group LFL sales</td>
<td>+0.7%</td>
<td>-1.0%</td>
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In the UK, online continued to grow. We saw a slowing in the rate of decline in stores compared with the first half of the year, aided by a good performance from Oxford Street as it traded its first full quarter following completion of the flagship transformation in February. Importantly, our strategy to refocus our promotional activity delivered higher levels of full price sell-through compared to last year.

Within the international segment, a strong sales performance from Magasin du Nord and the franchise business more than offset continued weakness in the Republic of Ireland stores.

**Guidance and outlook**

We expect our revised promotional strategy will continue to result in lower markdown leading to a stronger gross margin performance for the second half. Our guidance for gross margin for the full year is therefore unchanged at a decline of 50-70 basis points.

Cost guidance remains in line with that provided at the time of the interim results in April.

Our outlook for the year as a whole is unchanged.

**Strategy update**

We continue to focus on the five priorities set out at the interim results in April under the pillars of our strategy to build a leading international, multi-channel brand.

*Delivering a compelling customer proposition*

Product is at the heart of everything we do. We are continuing to invest in our differentiated product and brand strategy to meet our customers’ needs for choice, quality and value. During the second half we have improved the value proposition within childrenswear to improve our competitive positioning. This move has been supported by instore, online and email marketing to communicate our better value to customers clearly.

More prudent sales targets and tighter buying have enabled us to start refocusing our promotional strategy and as a result we have seen higher full price sell-through. Since the end of the January sale we have removed a number of events from the promotional calendar and reduced both the level of discount offered and stock participation in some other events. The start of the summer sale has been moved back by two weeks to provide more time for full price sales. This process will evolve over time and we will trial different approaches to ensure we achieve the right balance between improving our profitability and delivering great value for customers.

*Increasing availability and choice through multi-channel*

The online business continues to grow with profitability already benefiting from the refocusing of promotions. Online retailing is inherently more promotional than store-based retailing as promotions are a key customer acquisition tool. Full price sell-through has increased significantly in the second half, leading to an improvement in both margin rate and cash margin. We have seen a slowing in the rate of sales growth online but this is only to be expected given the level of promotions we ran during the period last year as we sought to clear excess stock. Group online sales increased by 10.0% during the 14 weeks to 7 June and by 8.4% in the 15 weeks to 14 June, representing 15.2% of total sales in both periods. For 40 weeks to 7 June, online sales grew by 19.5% and by 18.8% for the 41 weeks to 14 June.
Our work to build a more competitive and more economic multi-channel business is ongoing. We remain on track to introduce a wider range of premium delivery options ahead of Christmas 2014 which will meet customers’ increasing need for convenience. These include extending the cut-off time for next day delivery to home from 2pm to up to 10pm, evening delivery, weekend delivery and nominated day delivery. We will also start to fulfil Click & Collect orders from store stock whenever possible. We are confident that these improvements will improve choice for our customers, drive sales and allow us to recover a higher level of fulfilment costs and as a result we would expect to see the rate of online sales growth increase once these services are available.

**Focusing on UK retail**

Despite the UK high street remaining highly competitive, we have seen a slowing in the rate of sales decline in our UK stores compared with the first half of the year, aided by the performance of Oxford Street which is trading in line with expectations following the completion of its transformation into our international flagship store in February. Across the UK, we saw strong growth in Click & Collect sales and sales from instore kiosks, which demonstrate the continuing importance of stores in a multi-channel world. 

Driving a better return from our UK store assets by increasing sales densities on underperforming space is a key part of our strategy. Over the next six months we will commence trials with a number of new brands including Sports Direct which will open two sports concessions in our stores in Harrow and Southsea during August and potentially more stores before the end of the calendar year. The UK’s favourite coffee brand Costa will launch concessions in six stores: Guildford and Slough during June and Derby, Exeter, Haverfordwest and Woking during July. We are in discussion with a number of other brands.

A new 60,000 sq ft store opened in Hereford during May. One further store is due to open in Cheshire Oaks before the end of the financial year (48,000 sq ft). The new store pipeline for future years stands at 12 including two stores in the next financial year. The average size of these new stores is smaller than the current estate and the average lease length is shorter, with more than half at a lease length of 15 years or shorter.

**Expanding the brand internationally**

We are continuing to leverage our customer proposition and retail experience to accelerate international growth and have seen good results in the second half to date.

Magasin du Nord performed strongly with like-for-like sales up by 10.4% during the 15 week period in local currency compared to the prior year. The results of the Republic of Ireland stores continue to be impacted by the difficult market environment.

The franchise business saw good sales growth. Three new franchise stores have opened during the second half, including our first franchise in Latvia. The store in Georgia closes today taking the total number of franchise stores currently to 67 in 25 countries. The contracted new store pipeline stands at 22 stores predominantly in the Middle East, Eastern Europe and Southeast Asia. Discussions are ongoing for a further 50 stores.

**Operational effectiveness**

We are working to improve the operational effectiveness of the business with the need for greater flexibility in our global sourcing to protect product quality, improve costs and reduce lead times. We are also investing in better systems to support our merchandising, planning and buying as we evolve from a UK department store model to a true international and multi-channel business.
We are actively developing our international supply chain to reflect our sourcing and growing international presence, with direct supply for more than 50% of our exports to franchise partners now possible through our hub in Singapore.

Our UK logistics capability is being re-engineered to ensure we optimise handling and distribution costs, with greater exploitation of our own fleet for next day Click & Collect services and the progressive introduction of automation in parts of our fulfilment operations.

These changes are underpinned by a continuous investment in the quality and accuracy of our single stock file starting with the ability to fulfil Click & Collect orders from store stock before the end of this calendar year followed by a single inventory management system in the following year.

We hope to see the first benefits of these changes in the next financial year.

Capital structure

There has been no material change to the financial position of the Group since the beginning of the second half other than normal seasonal movements.

We announced at the interim results in April that we would be exploring opportunities to diversify our sources of funding over the next year. Given the current attractive state of credit markets at this time, we have expedited this process and are commencing a debt investor roadshow in respect of a £200 million 7 year bond issue. If we proceed with the bond issue, we will contemporaneously extend our existing bank financing arrangements to October 2018, thereby ensuring we continue to benefit from the attractive pricing on that facility. We expect overall debt facilities, including the bond issue, to remain unchanged at £650 million.

Associated with this, we would expect to see a non-cash pre-tax write-off of c.£4.5 million in the current year relating to capitalised fees on our existing bank facility.

Subject to final terms, the refinancing of our borrowing facilities in this way is expected to increase next year’s interest charge to £22-24 million compared to the guidance for the current financial year of £18-20 million. At this stage we would expect this higher interest charge to be largely offset by a number of factors outlined in the strategy update including lower markdown leading to improved margin delivery, tight cost management, the benefits of enhanced operational efficiency and the higher recovery of online fulfilment costs following the introduction of enhanced delivery options ahead of the Christmas 2014 peak. Importantly, we would expect to achieve a material saving in financing costs over the life of the bond as a result of the attractive rates currently available to borrowers.

- Ends -

A conference call for analysts and investors will be held at 9:00am today. To join the call, please dial +44 (0) 20 3427 1902 or +1 212 444 0412, PIN 7661130. A recording will be available for seven days on +44 (0) 20 3427 0598 or +1 347 366 9565, PIN 7661130.
Debenhams is a leading international, multi-channel brand with a proud British heritage which trades out of 243 stores across 28 countries. Debenhams gives its customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

In the UK, Debenhams has a top three market position in womenswear and menswear and a top ten share in childrenswear. It holds the number two market position in premium health and beauty.

Debenhams has been investing in British design for 20 years through its exclusive Designers at Debenhams portfolio of brands. Current designers include Abigail Ahern, Ted Baker, Jeff Banks, Jasper Conran, FrostFrench, Patrick Grant, Henry Holland, Betty Jackson, Ben de Lisi, Todd Lynn, Julien Macdonald, Jenny Packham, Pearce Fionda, Stephen Jones, Preen, Janet Reger, John Rocha, Jonathan Saunders, Ashley Thomas, Eric Van Peterson and Matthew Williamson.

Statements made in this announcement that look forward in time or that express management’s beliefs, expectations or estimates regarding future occurrences and prospects are “forward-looking statements” within the meaning of the United States federal securities laws. These forward-looking statements reflect Debenhams’ current expectations concerning future events and actual results may differ materially from current expectations or historical results. Neither the content of the Company’s website nor the content of any website accessible from hyperlinks on the Company’s website (or any other website) is (or is deemed to be) incorporated into or forms (or is deemed to form) part of this announcement.