DEBENHAMS
First half results
2014
First half headlines

- Challenging trading
- Sixth consecutive half of LFL sales growth
- Online sales up 24%
- Completed Oxford Street transformation into international flagship store
- Leadership team strengthened
- Cash dividend maintained
Neil Kennedy
Acting CFO
Financial headlines

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group gross transaction value</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Group LFL sales excluding VAT</td>
<td>+1.5%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>-100bps</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>£85.2m</td>
</tr>
<tr>
<td>Net debt/EBITDA (last 12 months)</td>
<td>1.6x</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>5.6p</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>1.0p</td>
</tr>
<tr>
<td></td>
<td>H1 14 (£m)</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------------</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UK</td>
</tr>
<tr>
<td>Gross transaction value</td>
<td>1,267.8</td>
</tr>
<tr>
<td>EBITDA*</td>
<td>116.6</td>
</tr>
<tr>
<td>Operating profit*</td>
<td>70.5</td>
</tr>
<tr>
<td>Net finance cost*</td>
<td>(8.2)</td>
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<tr>
<td>Profit before tax*</td>
<td>85.2</td>
</tr>
<tr>
<td>Taxation*</td>
<td>(16.5)</td>
</tr>
<tr>
<td>Profit after tax*</td>
<td>68.7</td>
</tr>
<tr>
<td>Earnings per share (pence)*</td>
<td>5.6p</td>
</tr>
<tr>
<td>Interim dividend per share (pence)</td>
<td>1.0p</td>
</tr>
</tbody>
</table>

*H1 13 restated for IAS 19(R) adjustment (see appendix)
Contribution to sales growth

UK stores  UK online  International  New UK space  International franchises

-2.4%  +2.8%  +1.1%  +0.4%  +0.2%  GTV +2.1%
Gross margin movement and own bought sales mix

Gross margin movement
H1 14 vs. H1 13

Markdown -90bps
Other -10bps
Total -100bps

Own bought sales mix (%)

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>International</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 14</td>
<td>81.4</td>
<td>63.8</td>
<td>81.4</td>
</tr>
<tr>
<td>H1 13</td>
<td>81.7</td>
<td>62.8</td>
<td>78.3</td>
</tr>
</tbody>
</table>

UK, International, Group
Online continues to grow strongly

Group online
H1 14 vs. H1 13

GTV
GTV growth
+24.1%
EBITDA growth
+25.3%

GTV £241.2m
GTV growth +24.1%
EBITDA growth +25.3%

Group online
History
## Cash generation

<table>
<thead>
<tr>
<th></th>
<th>H1 14</th>
<th>H1 13</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Operating profit(^1)</td>
<td>93.4</td>
<td>121.2</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation(^2)</td>
<td>51.2</td>
<td>47.8</td>
</tr>
<tr>
<td>EBITDA(^1)</td>
<td>144.6</td>
<td>169.0</td>
</tr>
<tr>
<td>Working capital</td>
<td>(9.2)</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(62.8)</td>
<td>(51.9)</td>
</tr>
<tr>
<td>Cash flow before financing &amp; taxation(^1)</td>
<td>72.6</td>
<td>112.8</td>
</tr>
</tbody>
</table>

\(^1\)H1 13 restated for IAS 19(R) adjustment (see appendix)

\(^2\)Depreciation includes profit/loss on disposal of fixed assets
Stock management under control

Closing stock value
H1 14 vs. H1 13

Total +0.7%
- LFL stores -2.2%
- New stores +1.1%
- Online +1.8%

Terminal stock
Terminal stock at period end 2.6%

Closing store stock unit density*
Units/sq ft

*Unit density excludes Magasin
Priorities for cash

- Invest in business to support the four pillars of the strategy
- Pay dividend to shareholders
  - Maintain 2013 cash dividend for 2014, rebuild cover in subsequent years
- Move towards 1x net debt/EBITDA over medium-term
Capital investment to support the four pillars of the strategy

H1 14
- £62.8m
- 35% New UK stores
- 23% UK store modernisations
- 14% UK maintenance
- 10% International

FY 13
- £133.3m
- 31% New UK stores
- 23% UK store modernisations
- 15% UK maintenance
- 7% International

FY 14 guidance
- £130-135m
- 20% New UK stores
- 33% UK store modernisations
- 19% UK maintenance
- 6% International
- 3% Group systems
- 4% Logistics
- 12% Head office move
- 3% Other
# Uses of cash and reduction in net debt

<table>
<thead>
<tr>
<th></th>
<th>H1 14 £m</th>
<th>H1 13 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow before financing &amp; taxation</strong></td>
<td>72.6</td>
<td>112.8</td>
</tr>
<tr>
<td><strong>Uses of cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Taxation</td>
<td>(15.8)</td>
<td>(19.7)</td>
</tr>
<tr>
<td>• Financing</td>
<td>(6.3)</td>
<td>(6.5)</td>
</tr>
<tr>
<td>• Dividends paid</td>
<td>(29.4)</td>
<td>(28.9)</td>
</tr>
<tr>
<td>• Share buyback</td>
<td>(15.1)</td>
<td>(9.0)</td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td>6.0</td>
<td>48.7</td>
</tr>
<tr>
<td><strong>Other lease/non-cash movements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4.9)</td>
<td>(1.6)</td>
</tr>
<tr>
<td><strong>Change in net debt</strong></td>
<td>1.1</td>
<td>47.1</td>
</tr>
<tr>
<td><strong>Opening net debt</strong></td>
<td>372.0</td>
<td>368.7</td>
</tr>
<tr>
<td><strong>Closing net debt</strong></td>
<td>370.9</td>
<td>321.6</td>
</tr>
<tr>
<td><strong>Leverage net debt/EBITDA (last 12 months)</strong></td>
<td>1.6x</td>
<td>1.3x</td>
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### Summary of guidance for 2014

<table>
<thead>
<tr>
<th>Category</th>
<th>Guidance</th>
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<tbody>
<tr>
<td><strong>Gross margin</strong></td>
<td>-50 to -70bps</td>
</tr>
<tr>
<td><strong>UK costs</strong></td>
<td></td>
</tr>
<tr>
<td>Store costs</td>
<td>2-4%</td>
</tr>
<tr>
<td>Online costs</td>
<td></td>
</tr>
<tr>
<td>% online sales</td>
<td>150-250bps improvement</td>
</tr>
<tr>
<td>Other costs</td>
<td>Underlying cost growth 2-4%</td>
</tr>
<tr>
<td><strong>International costs</strong></td>
<td></td>
</tr>
<tr>
<td>Store costs</td>
<td>2-4%</td>
</tr>
<tr>
<td>Online costs</td>
<td></td>
</tr>
<tr>
<td>% online sales</td>
<td>400-600bps deterioration</td>
</tr>
<tr>
<td>Other costs</td>
<td>2-5%</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>c.£104m</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>£18-20m</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>c.20%</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>Maintain 2013 dividend</td>
</tr>
</tbody>
</table>
Addressing the challenges of the changing market

- Our customer proposition is robust – continue investment to ensure it remains compelling
- Need for prudent sales targets
- Improve gross margins through markdown reductions linked to less stock and fewer promotions
- Address issues associated with channel shift: costs, sales densities, convenience
- Invest in key areas to support future growth and drive operational effectiveness
Our customer proposition is robust

- Total fashion: 4.9% (2014) vs. 4.8% (2013)
- Womens: 5.2% (2014) vs. 5.1% (2013)
- Mens: 5.2% (2014) vs. 4.8% (2013)
- Childrens: 3.2% (2014) vs. 3.2% (2013)

Source: Kantar Worldpanel market share for 12 weeks to 16 March 2014 vs. 2013
Product is at the heart of everything we do
The importance of convenience

Important factors To Customers When Christmas Shopping

Source: Conlumino Christmas Tracker 2012 and 2013
Focus on strategic imperatives: the four pillars

- Delivering a compelling customer proposition
- Expanding the brand internationally
- Increasing availability & choice through multi-channel
- Focusing on UK retail
- Operational effectiveness
Our priorities

Delivering a compelling customer proposition
- Refocus our approach to promotions

Increasing availability and choice through multi-channel
- Continue to build a more competitive and more economic multi-channel business

Focusing on UK retail
- Driving a better return from stores

Expanding the brand internationally
- Accelerate growth in international channels

Operational effectiveness
- Invest in operational and organisational effectiveness
Delivering a compelling customer proposition

- Refocus our approach to promotions

Increasing availability and choice through multi-channel
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Focusing on UK retail
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Operational effectiveness
- Invest in operational and organisational effectiveness
Refocusing our approach to promotions

- Plan stock more tightly
- Focus on events we are famous for and reduce days on promotion
- Discontinue clear-as-you-go
- Use differential markdown during sale
- Promotions appropriate to each channel
- Leverage investment in single customer view and loyalty programme to deliver more targeted promotional activity
**Increasing availability and choice through multi-channel**

**Delivering a compelling customer proposition**
- Refocus our promotional strategy

**Increasing availability and choice through multi-channel**
- Continue to build a more competitive and more economic multi-channel business

**Focusing on UK retail**
- Driving a better return from stores

**Expanding the brand internationally**
- Accelerate growth in international channels

**Operational effectiveness**
- Invest in operational and organisational effectiveness
Building a more competitive and more economic multi-channel business

Convenient, cost effective fulfilment

- Introduce more competitive delivery options
- Recover a higher proportion of delivery costs
- Reduce cost per unit
  - Smarter single stock file
  - Investment in automation

- Key deliverables for AW14
  - Next day delivery cut-off extended from 2pm to up to 10pm
  - Named day delivery including Saturday
  - Free next day Click & Collect, supported by fulfil-from-store and use of own fleet to deliver to store
  - Automation of packing process
Building a more competitive and more economic multi-channel business

Developing a flagship experience online

- Refresh website to support key categories and shopping missions
- Address known customer pain points
- Continue to invest in infrastructure to support stability, speed and future growth

- Key deliverables for AW14
  - Visual refresh of furniture, childrenswear and womenswear
  - Checkout and returns pain points addressed
  - Web, order management and mobile infrastructure strengthened
Building our mobile advantage

- Improve usability on tablet and mobile
- Improve consistency of shopping experience across web, mobile and instore kiosks
- Create a stronger link between mobile and stores

Key deliverables for AW14

- Mobile and tablet checkout improved
- New delivery options available across mobile, web and kiosks
- Instore trials underway using mobile to enable popular customer/staff interactions
Focusing on UK retail

Delivering a compelling customer proposition
• Refocus our promotional strategy

Increasing availability and choice through multi-channel
• Continue to build a more competitive and more economic multi-channel business

Focusing on UK retail
• Driving a better return from stores

Expanding the brand internationally
• Accelerate growth in international channels

Operational effectiveness
• Invest in operational and organisational effectiveness
Driving a better return from stores

- **Space optimisation opportunity**
  - *Currently c.1m sq ft (c.10%) of store space sub-optimal, will increase over next 3-5 years as online continues to grow*
  - *80% of inefficient space is in 40 largest stores*
  - *Requires bespoke approach for each store/market*

- **Limited lease flexibility**
  - *Average unexpired lease length 22 years*

- **New store opportunities remain but we will require increased flexibility**
## Driving a better return from stores

| Proposition | Adding choice of products, brands and services  
|             | • Own brands, international brands and concessions |
| Multi-channel | Extending food services to all stores  
|             | • Introduce third party food offers  
|             | • Additional own cafes |
| Estate | Multi-channel services  
|         | • Provide additional Click & Collect space to support growth from c.25% to c.50% of online orders |
|         | Store modernisations  
|         | • Remaining 19 to be completed over medium-term |
|         | Closing off-site stockrooms  
|         | • Reduce cost and relocate to low density store space where possible |
Expanding the brand internationally

- Delivering a compelling customer proposition
  - Refocusing our promotional strategy

- Increasing availability and choice through multi-channel
  - Continue to build a more competitive and more economic multi-channel business

- Focusing on UK retail
  - Driving a better return from stores

- Expanding the brand internationally
  - Accelerate growth in international channels

- Operational effectiveness
  - Invest in operational and organisational effectiveness
International strategy for growth

- Credible, exportable proposition demonstrated by existing international business
- International will be a substantial and growing part of Debenhams over next 10 years
- Guiding principles
  - *Must leverage core strength in own brand products*
  - *Market entry models must consider preference for prudent investment*
  - *Different models will be applicable in different markets*
A substantial and growing part of the business

<table>
<thead>
<tr>
<th>Operating models</th>
<th>Today</th>
<th>5 year target</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Owned stores</td>
<td>Owned stores</td>
</tr>
<tr>
<td></td>
<td>Franchise</td>
<td>Franchise</td>
</tr>
<tr>
<td></td>
<td>Online</td>
<td>Online</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brand wholesale</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brand licencing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Multi-channel</td>
</tr>
<tr>
<td>Number of countries with</td>
<td>27</td>
<td>40-50</td>
</tr>
<tr>
<td>store presence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online % of international</td>
<td>4%</td>
<td>c.15%</td>
</tr>
<tr>
<td>GTV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International sales %</td>
<td>19%</td>
<td>c.30%</td>
</tr>
<tr>
<td>of Group GTV</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Greater focus and support required to deliver international growth

| Organisation                     | • International ‘front of mind’ in organisation  
|                                | • Recruit senior personnel with skills in wholesale and licensing |
| Buying & merchandising          | • Closer integration with B&M  
|                                | • New models will have implications for buying and sourcing processes |
| Supply chain & systems          | • Develop and improve management of international supply chain  
|                                | • Systems investment |
| Partnerships                    | • Work closely with existing partners in key growth markets  
|                                | • Identify new partners, prioritising large wholesale markets |
Operational effectiveness

Delivering a compelling customer proposition
• Refocus our promotional strategy

Increasing availability and choice through multi-channel
• Continue to build a more competitive and more economic multi-channel business

Focusing on UK retail
• Driving a better return from stores

Expanding the brand internationally
• Accelerate growth in international channels

Operational effectiveness
• Invest in operational and organisational effectiveness
Four priorities for operational effectiveness

- Develop buying & merchandising systems capability
- Restructure the supply chain
- Increase visibility of business performance
- Invest in systems infrastructure
Operational effectiveness: key deliverables for AW14

- Automated packing in FCs
- Centralised and simplified returns handling
- Fulfil-from-store in all stores to support Click & Collect, broader use of Endless Aisle
- Own fleet distribution solution for Click & Collect
- Ship direct extended to Malaysia, Philippines, Indonesia and India
- Enhanced multi-national, multi-channel trading reporting
Outlook

- Customers encouraged by economic improvements but yet to translate into higher disposable income
- Therefore remain cautious about strength of UK consumer recovery
- Market will remain highly competitive
Summary

• Strategy remains valid

• Clear plan to address first half trading issues and challenges of changing market based on:
  • Refocusing promotional strategy
  • Building more competitive and more economic multi-channel business
  • Driving better returns from UK stores
  • Accelerating international growth
  • Investing to improve operational effectiveness

• Investing for future growth

• Confident that successful execution of this plan along with prudent sales targets, lower markdown and close management of costs will deliver stronger results for shareholders
# Impact of IAS 19(R) adjustment on H1 13 comparators

<table>
<thead>
<tr>
<th></th>
<th>H1 14</th>
<th>Reported</th>
<th>Eliminate LY IAS 19 adj</th>
<th>Restate LY IAS 19(R)</th>
<th>Restated</th>
<th>vs LY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>GTV</td>
<td>1,566.9</td>
<td>1,535.1</td>
<td>(5.6)</td>
<td>1,535.1</td>
<td>1,535.1</td>
<td>2.1%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>144.6</td>
<td>175.3</td>
<td>(5.6)</td>
<td>(0.7)</td>
<td>169.0</td>
<td>(14.4%)</td>
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<td>Operating profit</td>
<td>93.4</td>
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<tr>
<td>Net finance cost</td>
<td>(8.2)</td>
<td>(7.2)</td>
<td>(1.2)</td>
<td>(8.4)</td>
<td>2.4%</td>
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</tr>
<tr>
<td>Profit before tax</td>
<td>85.2</td>
<td>120.3</td>
<td>(5.6)</td>
<td>(1.9)</td>
<td>112.8</td>
<td>(24.5%)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(16.5)</td>
<td>(25.1)</td>
<td>1.1</td>
<td>0.4</td>
<td>(23.6)</td>
<td>30.1%</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>68.7</td>
<td>95.2</td>
<td>(4.5)</td>
<td>(1.5)</td>
<td>89.2</td>
<td>(23.0%)</td>
</tr>
</tbody>
</table>