## Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
</table>
| 1:45pm – 2:45pm | Transforming the estate  
*Mike Goring, Retail Director*  
*Mark Jordan, Director of Space Planning* |
| 2:45pm – 3:00pm | Break                                                                   |
| 3:00pm – 4:00pm | The new store opportunity  
*Mike Goring, Retail Director*  
*Rob Unsworth, Director of Commercial Finance*  
*Rob Hadfield, Director of Property Acquisitions* |
A leading international, multi-channel brand

The four pillars of the strategy

1. Focusing on UK retail
2. Delivering a compelling customer proposition
3. Increasing availability and choice through multi-channel
4. Expanding the brand internationally
## UK retail today

### Stores by type

<table>
<thead>
<tr>
<th>Stores by type</th>
<th>No. of stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>High street</td>
<td>60</td>
</tr>
<tr>
<td>Town shopping centre</td>
<td>72</td>
</tr>
<tr>
<td>Regional shopping centre</td>
<td>13</td>
</tr>
<tr>
<td>Retail park</td>
<td>9</td>
</tr>
<tr>
<td>Republic of Ireland</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>165</strong></td>
</tr>
</tbody>
</table>

### Stores by investment status

<table>
<thead>
<tr>
<th>Stores by investment status</th>
<th>No. of stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>New since 2007</td>
<td>35</td>
</tr>
<tr>
<td>Recently modernised</td>
<td>32</td>
</tr>
<tr>
<td>Invested core</td>
<td>57</td>
</tr>
<tr>
<td>Uninvested core</td>
<td>30</td>
</tr>
<tr>
<td>Republic of Ireland</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>165</strong></td>
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</table>

**Potential for up to 240 stores in UK and Republic of Ireland**
Transforming the estate

Carlisle made even more fabulous

Your NEW look store launches
Friday 21 September

Mike Goring, Retail Director
Mark Jordan, Director of Space Planning
The case for modernisations

- Meets customers’ demands for modern and contemporary place to shop
- Brand perceptions set by local store
- Opportunity to remix space and improve choice for the local market
- Builds stronger relationships with international brands and concessions

→ Delivers increased sales and market share and good return on investment
## Modernisation programme update

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of stores requiring modernisation as at SS 2010</td>
<td>62</td>
</tr>
<tr>
<td>SS 2010 modernisations</td>
<td>3</td>
</tr>
<tr>
<td>AW 2010 modernisations</td>
<td>5</td>
</tr>
<tr>
<td>AW 2011 modernisations</td>
<td>6</td>
</tr>
<tr>
<td>SS 2012</td>
<td>9</td>
</tr>
<tr>
<td>AW 2012*</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total modernisations to date</strong></td>
<td><strong>32</strong></td>
</tr>
<tr>
<td>2013 modernisations</td>
<td>15</td>
</tr>
<tr>
<td>2014 modernisations</td>
<td>15</td>
</tr>
</tbody>
</table>

*completing October 2012*
## Modernisation return on investment

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of modernisation</td>
<td>£25 per sq ft</td>
</tr>
<tr>
<td>Sales disruption during modernisation</td>
<td>c.5-10% impact on LFL sales</td>
</tr>
<tr>
<td>Sales uplift – year 1</td>
<td>c.6%</td>
</tr>
<tr>
<td>Sales uplift – year 2</td>
<td>c.1.5%</td>
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<tr>
<td>Margin uplift</td>
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<tr>
<td><strong>Return on capital</strong>*</td>
<td><strong>c.15%</strong></td>
</tr>
</tbody>
</table>

*EBITDA/capital investment*
Planning: how we select stores for modernisation

- Condition of store
- Age of store
- Future developments within market
- Competitor activity
- Sales performance
- Size of market
- Opportunity to reclaim space
- Below average market share
Planning: key functions in the process

- Space planning
- Retail
- Buying & merchandising
- Creative
- Store development
- Health & beauty
- Food services
- Marketing
- Finance
Planning: the process

Key steps in the 100 step process from store selection to completion

13 months
Compile data

10 months
Project appraisal

8 months
Tender process

6 months
Commence works

13 months from initial work to store relaunch

12 months
Planning visit to develop layout

9 months
Develop scope of works

7 months
(a) Agree costs
(b) Project sign-off

1 month
Commence marketing/PR
Planning: building blocks to success

Other improvements in: customer services; branding; general environment
**Planning: adding newness**

355 new offers introduced in 32 stores completed to date

<table>
<thead>
<tr>
<th>Own bought</th>
<th>Number of new offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; beauty</td>
<td>132</td>
</tr>
<tr>
<td>Womenswear</td>
<td>45</td>
</tr>
<tr>
<td>Lingerie</td>
<td>11</td>
</tr>
<tr>
<td>Accessories</td>
<td>16</td>
</tr>
<tr>
<td>Menswear</td>
<td>28</td>
</tr>
<tr>
<td>Home</td>
<td>4</td>
</tr>
<tr>
<td><strong>Own bought total</strong></td>
<td><strong>236</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Concessions</th>
<th>Number of new offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Womenswear</td>
<td>85</td>
</tr>
<tr>
<td>Accessories</td>
<td>21</td>
</tr>
<tr>
<td>Home</td>
<td>13</td>
</tr>
<tr>
<td><strong>Concessions total</strong></td>
<td><strong>119</strong></td>
</tr>
</tbody>
</table>
Planning: space optimisation by division

Remixing space based on performance, ideal adjacencies, ease of shopping and overall strategy

Example: Merryhill

Ground floor before modernisation

Ground floor after modernisation
Planning: optimising space by division

Example: Merryhill

First floor before modernisation

First floor after modernisation
Planning: health and beauty

- Space expansion
- New flooring
- 100% new house builds
- Fragrance expansion
- Adding newness
- Improved customer service
- Renewed focus with brands
- New beauty rooms
Planning: breakdown of spend

- **£25 per sq ft**
  - Health & beauty hall
  - Fixtures
  - Visual eqpt/branding
  - Food services
  - WCs
  - Lighting
  - Flooring
  - Shopfitting

- **£20 per sq ft**
  - Store costs
  - Fixtures
  - Visual eqpt/branding
  - Food services
  - WCs
  - Lighting
  - Flooring
  - Shopfitting
Planning: the tender process

- **Contractors are appointed based on**
  + Price
  + Risk
    - Current committed workload
    - Past performance
  + Experience
    - Complexity of programme
    - Local knowledge
    - New contractors on smaller projects

- **3 quotes obtained**

- **List of approved contractors reviewed on ongoing basis**
Planning: project appraisal

- **Sales forecast**
  + Newness
  + Identify increases/decreases based on elements within building blocks
  + Retail agreement to sales uplift

- **Costs**
  + Each element of spend needs to pay back (excluding maintenance)
  + Contribution from health & beauty and concession brands

- **Required rate of return**
Implementation: minimising disruption

- Clearance sales
- Action large space changes early in phasing
- Store remains open throughout
- Work overnight where possible
- Reduce length of work: now 24-26 weeks vs 30 weeks
- Minimise customer facing work during peak trading times
  + October to December
  + Megadays
  + Main sales
Implementation: instore communication during works

- Womenswear
- Coming soon... a great new childrenswear department
- Up to 3
  - Restaurant
  - Toilets
  - Baby changing facilities
- Coming soon... a great new womenswear department
- Escalator replacement in progress
  - Please use the lift or stairs
- Lingerie now on X
Implementation: instore communication during works

**DEBENHAMS**

*made fabulous...*

*Your new look store coming soon*

NEW

**beauty & fragrance hall**
on G

NEW

**restaurant**
on 1

**EXTENDED**

**womenswear**
on G

**NEW**

**menswear**
now on LG

**Life made fabulous**

**Cafe**

**fabulous FOOD & great COFFEE**
Implementation: marketing and PR launch

- **Local marketing**
  + Leaflet drop, including voucher offer
  + Local radio advertising
  + Emails to local customers
  + Outdoor advertising

- **PR**
  + 12 week programme to boost media coverage and community engagement
  + Instore events including personal appearances by Designers at Debenhams
  + Wider Debenhams news localised and amplified
Implementation: local marketing leaflets

Feel fabulous in your NEW look Carlisle store

The Restaurant
Take a break from your shopping and enjoy:
- Delicious sandwiches and salads
- Indulgent cakes and pastries
- Hot meals, soup and toffees
- Extra coffee, exclusive to Debenhams
- FREE Wi-Fi

Kidswear
10 thin out in the very latest styles
and designer clothing. Whether you're
looking for practical essentials or an outfit
for special occasions, Debenhams has the best selection of kidswear suitable for all their adventures.

Home
We believe your home should look as
good as you do. From gadgets and stylish
fashionware to cookware and gorgeous bedlinen,
we have everything to style your home.

Menswear
With something for every occasion from work to
weekend. Find all the latest trends and essentials in
our fantastic selection of Debenhams collections.
Plus new for store and exclusively available only at
Debenhams in renowned 100% linen, "Nebraska."
Post-investment appraisal

- Stores reviewed post launch
  + At 3 months, 6 months and 12 months

- Analysis vs control group vs expected performance
  + Sales
  + Margin
  + Payroll
  + Expenses
  + Actual spend
  + ROCE

- Lessons for future projects
## Modernisation return on investment

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*EBITDA/capital investment*
The new store opportunity

Mike Goring, Retail Director
Rob Unsworth, Director of Commercial Finance
Rob Hadfield, Director of Property Acquisitions
Agenda

- The case for new stores
- Assessing market potential
- Realisation of a development
- Key markets for profitable growth
- New store pipeline
The case for stores

- Stores will remain the primary sales channel for majority of customers
- Up to 240 markets in UK/Republic of Ireland can support a Debenhams store
- Potentially £1 billion additional sales from new stores plus increased market share
- We know that....
  + ....customers who live near a store also spend more online
  + ....multi-channel customers spend more overall
The case for stores

165 stores in UK/Republic of Ireland
240 potential total stores
The case for stores: challenges to store growth

- Competition from the internet
- Efficiency of a growing multi-channel business
- Macro-economic factors
- Lack of retail property developments
The case for stores: other benefits

- Good financial returns
- Economies of scale
- More choice and ways to shop in closer locations
- Demonstrates our compelling customer proposition
- New developments showcase Debenhams brand for international expansion
Assessing market potential

- **Market opportunity**
  + Based on customer demographics and spend potential

- **Location opportunities**
  + Based on gravity model to determine market attractiveness
  + Aims to replicate decision making process of consumers
  + Debenhams’ model built with data and modelling expertise from CACI
Assessing market potential: gravity modelling

- Allocates areas of retail demand to retail centres based on centre attractiveness and ease of access
- Three main elements
  + Demand
  + Supply
  + Interaction
Assessing market potential: understanding drivetime

Debenhams UK network: drivetime decay

50% live within 23 mins
80% live within 49 mins
Assessing market potential: specific opportunities

Gravity model + Sales model

Finance model

ROI

Costs

Scenario factors

Scenario deflection

Market factors

Store factors
New store track record: delivering return on investment

- 35 stores opened since start of FY07

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<tr>
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<th>Department stores + small format stores</th>
</tr>
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<tbody>
<tr>
<td>Number of stores</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>Average store size (sq ft)</td>
<td>79,000</td>
<td>56,000</td>
</tr>
<tr>
<td>Gross capex (per sq ft)</td>
<td>£90</td>
<td>£94</td>
</tr>
<tr>
<td>Net capex (£m)</td>
<td>£3.3m</td>
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<tr>
<td>Stock investment</td>
<td>£1.4m</td>
<td>£1.1m</td>
</tr>
<tr>
<td>Sales</td>
<td>£14.3m</td>
<td>£10.4m</td>
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<tr>
<td>Store EBITDA</td>
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<tr>
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Realisation of a development

- Robust acquisition criteria
  + Right location
  + Right developer
  + Right type and size
  + Right deal
- Pursuing opportunities
- Anatomy of a deal
Realisation of a development: pursuing opportunities

- Quarterly reviews with leading developers
- Early visits to potential sites
- Our approach is both strategic and tactical
- Flexible type and format of store
Realisation of a deal: strategic and tactical approach

- Contracts exchanged
- Debenhams contractors on site
- Handover to retail

Department store:
- Initial planning/contract negotiation
- Detailed planning/developer construction
- Debenhams fit-out
- Practical completion/stock build

Retail park:

Tactical opportunity:

Months:
0 10 20 30 40 50 60
Realisation of a development: flexible type and size of store

Company flagship – Oxford Street

Visualisation of retail park

Shopping centre - Newcastle

Small format - Kidderminster
Realisation of a development: anatomy of a deal

- Developers’ contributions and other incentives
- Lease length and other terms
- Rent
- Service charges
Key markets for profitable growth

- High population density e.g. London and south east
Key markets for profitable growth

- High population density e.g. London and south east
- Priority locations
Key markets for profitable growth

- High population density e.g. London and south east
- Priority locations
- Isolated markets
- Markets where low penetration with existing estate
Up to 240 markets in UK/Republic of Ireland can support a Debenhams store
New store pipeline: contracted stores

- 15 stores
- 740,000 sq ft trading space
- Store size 25,000 – 80,000 sq ft
- Predicted sales of £130 million
New store pipeline: stores in advanced discussions

- 25 stores
- 1.25 million sq ft trading space
- Potential sales of £270 million
New store track record: delivering return on investment

- **35 stores opened since start of FY07**

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