Preliminary Results

25 October 2018

Debenhams
Introduction

Sergio Bucher, CEO

Debenhams
Agenda

Sergio
- Headlines
- Update on strategic priorities 1-4

Rachel
- Financial results for FY2018
- Update on priority 5
- Action to cut costs, generate cash and reduce debt

Sergio
- Addressing the structural challenge
- Segmenting our store portfolio
- Summary and outlook
Headlines

• Key results confirmed from 10 September RNS:
  – Pre-exceptional PBT of £33.2m
  – EBITDA of £157m
  – Net debt of £321m

• Transformation gaining traction
  – Above-market growth in digital
  – Food sales up 10% in the UK
  – New format stores delivering improving metrics
  – New product achieving faster sell-through

• Accelerating cost reductions and cash generation, to delever balance sheet

• Addressing structural challenge: reshaping portfolio to drive profitable growth
## Strategic Report Card

<table>
<thead>
<tr>
<th>What we said</th>
<th>What we’ve done</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Drive above-market digital growth</td>
<td>• Mobile focus drove 12% growth; smartphone conversion up 17%</td>
</tr>
<tr>
<td>2. Sustain leadership in beauty through digital/social</td>
<td>• Digital sales up 20% in FY18; first UK digital Community launched</td>
</tr>
<tr>
<td>3. Improve fashion product</td>
<td>• Womenswear market share up</td>
</tr>
<tr>
<td>4. Change in-store experience</td>
<td>• 9 stores in new format, delivering strong KPIs</td>
</tr>
<tr>
<td>5. Deliver cost reduction activity</td>
<td>• Landed £12m in-year cost savings vs £10m target</td>
</tr>
</tbody>
</table>
Priority 1: Above-market digital growth

What we have done

- Digital sales accelerated from +10% in H1 to +16% in H2
- Mobile focus drove 20% demand growth
- Customer experience improvements - smartphone conversion up 17%

What we are going to do

- Improve CX on desktop using Mobify
- “Online first” ranging
- Bringing channels closer together: mobile search/click & collect
Priority 2: Sustaining leadership in Beauty

What we have done

• Strategy focused on differentiation and newness to address slower market
• Beauty Hall of the Future in two stores; Meadowhall already #2 in the chain
• More brand choice to smaller stores through #beautyhub

What we are going to do

• 40 stores with elements of new beauty presentation for peak
• Developing under-exploited categories: skincare, men’s grooming, minis
• UK’s first digital beauty community; a third of users are new to Debenhams
Priority 3: Revitalising product

What we have done
- New leadership team & structure improves brand definition and accountability
- Maintained clothing market share; up in womenswear
- Strongest performance in new format stores; faster stock turn

What we are going to do
- New product in all stores and digital; highlighting newness in store
- Step forward in womenswear: better value to drive faster sell-through
- 70% of gift range replaced; new merchandising approach in 120 stores
Priority 4: Changing store environment

What we have done
• New service-led concept
• Stevenage 12 months on, best performer:
  – ATVs
  – full price sell-through
  – food penetration
• Food growth of 10%: new offers and revamped in-house formats

What we are going to do
• c75 new food pop-ups for peak
• 9 stores including Watford now trading in new design
• Assess performance through Christmas peak

Beauty hall of the future at Watford
International performance

Magasin update
• Strong performance against weaker market background
• Digital growth momentum maintained
• Successful opening at Aalborg

Franchise/wholesale
• Opened new flagship in Kuwait and new store in Riyadh, Saudi Arabia
• Exitied two low potential franchise markets, net five closures
• Strong wholesale growth, particularly for Baker and Faith

New Aalborg store in Denmark
Measuring our progress

Strategic KPIs*

- Growth in mobile sales: +20%
- Growth in Beauty sales: (0.8)%
- Growth in Food sales: +10%

Operational KPIs*

- Full price sales growth: (8)%
- Net promoter score: +4 pps

*relates to UK retail business only

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Financial Update

Rachel Osborne, CFO

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Financial priorities

• Rigorous cost and capital discipline

• Generate cash, reduce debt, reshape store portfolio
  – Strategic priorities focused on self help addressing cyclical challenge
  – Today announcing decisive actions to address structural challenge

• Building a robust and sustainable financial platform
# Financial headlines

<table>
<thead>
<tr>
<th>Metric</th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group gross transaction value</td>
<td>(1.8)%</td>
</tr>
<tr>
<td>Group LFL sales</td>
<td>(2.3)%</td>
</tr>
<tr>
<td>Group EBITDA</td>
<td>£157.3m</td>
</tr>
<tr>
<td>Underlying Profit before tax(^1)</td>
<td>£33.2m</td>
</tr>
<tr>
<td>Underlying earnings per share(^1)</td>
<td>2.2p</td>
</tr>
<tr>
<td>Exceptional costs (largely non-cash)</td>
<td>£(524.7)m</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>£159.1m</td>
</tr>
<tr>
<td>Net debt</td>
<td>£321.3m</td>
</tr>
<tr>
<td>Final dividend per share</td>
<td>Nil</td>
</tr>
</tbody>
</table>

\(^1\) Before exceptional costs

Debenhams
## Exceptional costs

<table>
<thead>
<tr>
<th></th>
<th>Cash in year</th>
<th>Non cash</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Review &amp; Restructuring</td>
<td>3.1</td>
<td>10.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Warehouse restructure</td>
<td>9.2</td>
<td>1.8</td>
<td>11.0</td>
</tr>
<tr>
<td>IT systems write-offs/other</td>
<td>80.5</td>
<td></td>
<td>80.5</td>
</tr>
<tr>
<td>Store impairment &amp; onerous leases</td>
<td>117.5</td>
<td></td>
<td>117.5</td>
</tr>
<tr>
<td>Historic goodwill impairment</td>
<td>302.1</td>
<td></td>
<td>302.1</td>
</tr>
<tr>
<td><strong>Total exceptional costs</strong></td>
<td><strong>12.3</strong></td>
<td><strong>512.4</strong></td>
<td><strong>524.7</strong></td>
</tr>
</tbody>
</table>

Included within non-cash items within the year are £3.0 million of cost provisions that will impact cash in FY19. Within the year and in addition to the £12.3 million in year cash exceptional is a £2.2 million cash cost relating to previous year exceptional provisions.
## Segmental Results

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>FY 18</th>
<th>Variance vs. FY 17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UK</td>
<td>Int’l</td>
<td>Group</td>
</tr>
<tr>
<td>Gross transaction value</td>
<td>2,287.3</td>
<td>613.1</td>
<td>2,900.4</td>
</tr>
<tr>
<td>EBITDA</td>
<td>112.0</td>
<td>45.3</td>
<td>157.3</td>
</tr>
<tr>
<td>Operating profit</td>
<td>8.5</td>
<td>34.9</td>
<td>43.4</td>
</tr>
<tr>
<td>Net finance cost</td>
<td></td>
<td></td>
<td>(10.2)</td>
</tr>
<tr>
<td>Underlying profit before tax$^1$</td>
<td></td>
<td></td>
<td>33.2</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td></td>
<td></td>
<td>(524.7)</td>
</tr>
<tr>
<td>Statutory loss before tax</td>
<td></td>
<td></td>
<td>(491.5)</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
<td>31.3</td>
</tr>
<tr>
<td>Share of loss of associates</td>
<td></td>
<td></td>
<td>(0.8)</td>
</tr>
<tr>
<td>Statutory loss after tax</td>
<td></td>
<td></td>
<td>(461.0)</td>
</tr>
<tr>
<td>Underlying earnings per share$^1$</td>
<td></td>
<td></td>
<td>2.2p</td>
</tr>
<tr>
<td>Basic loss per share</td>
<td></td>
<td></td>
<td>(37.5p)</td>
</tr>
</tbody>
</table>

$^1$Before exceptional costs
**Digital growth mitigating lower stores LFL**

<table>
<thead>
<tr>
<th>Area LFL %</th>
<th>Digital LFL vs LY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK (3.4)%</td>
<td>H1 +9.7%</td>
</tr>
<tr>
<td>International +0.2%</td>
<td>H2 +16.1%</td>
</tr>
<tr>
<td>Constant Currency LFL (2.7)%</td>
<td>FY +12.3%</td>
</tr>
<tr>
<td>Currency impact +0.4%</td>
<td>GTV FY18 £529.7m</td>
</tr>
<tr>
<td>Reported LFL (2.3)%</td>
<td></td>
</tr>
</tbody>
</table>

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Additional markdown impacts margin

Group gross margin
year on year movements (bps)

<table>
<thead>
<tr>
<th></th>
<th>17/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intake/sales mix¹</td>
<td>(20)bps</td>
</tr>
<tr>
<td>Markdown</td>
<td>(120)bps</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(140)bps</strong></td>
</tr>
</tbody>
</table>

¹Includes brand mix and category mix

- Competitive pressures from increasingly volatile market
- Ongoing tactical promotional activity
- Optimising end season stock position; terminal stock at low end of historic range

Currency hedged rates

<table>
<thead>
<tr>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.50</td>
<td>$1.30</td>
<td>$1.35</td>
<td>c.$1.35</td>
</tr>
</tbody>
</table>

- Fully Hedged for FY19, c50% hedged for FY20
- Review of sourcing strategy
- Optimising brand mix
Costs well controlled

UK store costs (0.4%)
Headwinds
- NLW
- Rent & rates
- New stores

Mitigation
- New operating model
- Closing regional warehouses

UK Digital costs +4.1%
Headwinds
- Volume-related growth

Mitigation
- Fulfilment
- Shift spend to digital marketing

Other costs (2.5%)
Headwinds
- Other inflation

Mitigation
- New operating model
- Central payroll
- Support centre downsize

0.5% decrease
## Summary of cash generation

<table>
<thead>
<tr>
<th></th>
<th>FY 18 £m</th>
<th>FY 17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating profit before exceptional costs</strong></td>
<td>43.4</td>
<td>107.5</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>113.9</td>
<td>109.5</td>
</tr>
<tr>
<td>Working capital</td>
<td>1.8</td>
<td>(0.7)</td>
</tr>
<tr>
<td><strong>Cash Flow from Operations</strong></td>
<td>159.1</td>
<td>216.3</td>
</tr>
<tr>
<td>Taxation</td>
<td>1.3</td>
<td>(16.3)</td>
</tr>
<tr>
<td>Financing</td>
<td>(11.0)</td>
<td>(11.1)</td>
</tr>
<tr>
<td>Non discretionary capital expenditure</td>
<td>(31.5)</td>
<td>(29.0)</td>
</tr>
<tr>
<td><strong>Free Cash flow</strong></td>
<td>117.9</td>
<td>159.9</td>
</tr>
<tr>
<td>Development capital expenditure</td>
<td>(112.0)</td>
<td>(95.8)</td>
</tr>
<tr>
<td>Dividends (FY17 final + interim)</td>
<td>(35.6)</td>
<td>(42.0)</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>(14.5)</td>
<td>(15.9)</td>
</tr>
<tr>
<td>Other movements</td>
<td>(1.2)</td>
<td>(3.1)</td>
</tr>
<tr>
<td><strong>Change in net debt</strong></td>
<td>(45.4)</td>
<td>3.1</td>
</tr>
<tr>
<td>Opening net debt</td>
<td>275.9</td>
<td>279.0</td>
</tr>
<tr>
<td>Closing net debt</td>
<td>321.3</td>
<td>275.9</td>
</tr>
</tbody>
</table>
Priority 5: Accelerating cost and cash activity

- Phase two cost reduction programme
- Capex reduced and re-prioritised
- Investment focus on faster-returning Redesigned projects
- Suspending dividend payments
- Addressing store estate; working with landlords

Cumulative benefits to FY20 (£m)

- Aug 18 base
- Cost savings
- Lower capex
- Lower dividends
- Aug 20
Increasing headroom through peak

Debt utilisation (£m)

- Total facility
- Aug YE
- Oct Act
- Nov F
- Dec F
- Jan F

Bond
RCF
Headroom

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Managing what is under our control

Additional cash generation FY19 (£m)

<table>
<thead>
<tr>
<th>FY18 base</th>
<th>Cost savings</th>
<th>Lower capex</th>
<th>Lower dividends</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>70</td>
<td>36</td>
<td></td>
<td>140</td>
</tr>
</tbody>
</table>

Market environment, Cost headwinds
Accelerating cost reduction programme

What we have done
Delivered £12m in FY18, vs guided £10m, annualising to £20m
- Reduced layers of management
- Downscaled support centre site
- Central payroll down 20%
- Closed small regional warehouses

What we are going to do
£50m additional annualised savings by FY20
- Further support centre savings
- Web platform savings
- Warehouse consolidation
- Fulfilment cost recovery

Target £130m cash savings over 3 years

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>Cum. Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original</td>
<td></td>
<td>12</td>
<td>20</td>
<td>20</td>
<td>52</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
<td>30</td>
<td>50</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>50</td>
<td>70</td>
<td></td>
<td>132</td>
</tr>
</tbody>
</table>

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Generate cash, reduce debt, reshape store estate

- Additional cost savings of at least £30m in FY19, annualising to c.£50m
  - Cumulative cash saving by FY20 of c£130m

- Capex reduced to c.£70m – including continuing investment spend
  - Cumulative cash retention by FY20 of c£160m

- In line with plan to generate cash and reduce debt, no final dividend paid
  - Cumulative cash retention by FY20 of c£70m

Addressing core structural challenge: reshape store portfolio
Reshaping our store portfolio

Sergio Bucher, CEO

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Addressing structural challenge: store estate

Cost headwinds

- Annual UK occupancy bill c.£300m
- 110 stores are over-rented
- Upward only rent agreements
- Average lease length c.18 years
- c. 10 stores now in small loss

UK occupancy costs* £m

*Rents, rates and service charges; FY16 52 weeks adj.
Store estate portfolio review

**Invest**
- Up to 100 stores
- 8.2m sq ft
- c.80% of GTV
- Av lease length 21 years
- Capitalised leases >£1bn

**Optimise**
- c. 20 stores
- 1.4m sq ft
- c.6% of GTV
- Av lease length 11 years
- Capitalised leases c.£100m

**Close**
- Up to 50 stores
- 2.4m sq ft
- c.15% of GTV
- Ave lease length 17 years
- Capitalised leases c.£300m
Segmentation of store portfolio

Profit

Sales

No. of stores

Invest  Optimise  Close

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Store estate portfolio review - invest

**Invest**

- Up to 100 stores
- 8.2m sq ft
- c. 80% of GTV
- c. 85% of profit
- Ave. lease length 21 years
- Capitalised leases >£1bn

- Best elements of Watford format to be rolled out to 13 stores initially
- Applying lessons from refit at Meadowhall
- Returns will determine spend on next store layer
- Combination of full- and lower-cost refit
- Uxbridge/Cambridge experience
- Co-investment opportunities
Store estate portfolio review – exit

- Three to five year programme
- Poor current financial performance
- Lower potential markets
- Both under- and over-sized stores
- Costs of exit dependent on landlord negotiations

**Close**

- Up to 50 stores
- 2.4m sq ft
- c. 15% of GTV
- c. 8% of profit
- Ave. lease length 17 years
- Capitalised leases c.£300m
Store estate portfolio review – optimise

**Optimise**
- c. 20 stores
- 1.4m sq ft
- c. 6% of GTV
- c. 9% of profit
- Ave. lease length 11 years
- Capitalised leases c.£100m

- Incl. stores that remain profitable but unlikely to deliver incremental ROIC
- Maintenance capex only
- Negotiate lease costs with landlords
- Additional downsize opportunities
- Location-dependent solutions
Debenhams redesigned

Our vision of the future
Creating shareholder value

Social shopping

Destination
Digital
Different

Simplify & focus

Growth
Efficiency
Future Debenhams Redesigned

**Destination**
- Profitable Destination stores
- Leading premium beauty retailer
- Top 5 Fashion & Home retailer

**Digital**
- Top 10 Retail Website
- The leading beauty social media forum
- c.30% of UK sales via digital/social

**Different**
- Well-differentiated brand matrix
- c.50% exclusive to Debenhams
- Lean operating model
Summary & Outlook

Near term outlook to remain volatile and challenging

- Focus on self-help activity
- Generate cash, reduce debt, reshape store estate
- Scaling five priorities and targeting faster-returning projects

Building a sustainable future for Debenhams

- An exciting customer proposition across stores and online
- A reshaped store portfolio that will deliver positive returns
- Robust financial foundations
Q&A

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## International Headlines

<table>
<thead>
<tr>
<th></th>
<th>$m</th>
<th>FY18</th>
<th>Variance vs. FY17</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Magasin du Nord</td>
<td>Ireland Franchise</td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>Gross transaction value</td>
<td>333.0</td>
<td>280.1</td>
<td>613.1</td>
<td>+2.2%</td>
</tr>
<tr>
<td>EBITDA(^1)</td>
<td>27.7</td>
<td>17.6</td>
<td>45.3</td>
<td>+4.1%</td>
</tr>
<tr>
<td>Operating profit (reported)(^1)</td>
<td>20.4</td>
<td>14.5</td>
<td>34.9</td>
<td>+2.0%</td>
</tr>
</tbody>
</table>

\(^1\) Before exceptional costs
Stock increase reflects new stores/early intake of new season

<table>
<thead>
<tr>
<th></th>
<th>FY18 vs FY17</th>
<th>% of total stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost price increase</td>
<td>2.1%</td>
<td></td>
</tr>
<tr>
<td>New stores</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>Early intake of new season stock</td>
<td>2.1%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Stock vs LY</strong></td>
<td><strong>5.9%</strong></td>
<td></td>
</tr>
<tr>
<td>Terminal Stock</td>
<td>2.7%</td>
<td>(2.8% FY17)</td>
</tr>
</tbody>
</table>
Capex shifts from Systems investment to Store Modernisation and Supply Chain investment

FY 17

124.8m

FY 18

136.0m

17/18 Excludes investment in associate
## Pension scheme valuation in Accounts

<table>
<thead>
<tr>
<th></th>
<th>FY18 £m</th>
<th>FY17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension scheme assets</td>
<td>1,093.4</td>
<td>1,123.4</td>
</tr>
<tr>
<td>Pension scheme liabilities</td>
<td>(934.0)</td>
<td>(1,042.5)</td>
</tr>
<tr>
<td>Net surplus</td>
<td>159.4</td>
<td>80.9</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
## Space and store numbers

<table>
<thead>
<tr>
<th></th>
<th>Own-operated space (000 sq ft)</th>
<th>UK stores</th>
<th>Int’l own-operated stores</th>
<th>Int’l franchise stores</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 17 close</td>
<td>13,109</td>
<td>166</td>
<td>17</td>
<td>63</td>
<td>246</td>
</tr>
<tr>
<td>Wolverhampton opening</td>
<td>66</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Farnborough and Eltham Closure</td>
<td>(29)</td>
<td>(2)</td>
<td></td>
<td></td>
<td>(2)</td>
</tr>
<tr>
<td>Space reduction</td>
<td>(33)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise opening</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchise closure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 18 close</td>
<td>13,113</td>
<td>165</td>
<td>17</td>
<td>58</td>
<td>240</td>
</tr>
</tbody>
</table>
Thank you for listening

Debenhams