

A fashion advertisement featuring two models standing on a stone ledge against a clear blue sky. The model on the left wears a vibrant, multi-colored floral dress with a black and white striped waist and sleeves. The model on the right wears a royal blue long-sleeved dress with a subtle floral pattern and a bright yellow skirt with a similar floral pattern. The background shows a building with vertical architectural elements.

DEBENHAMS *Redesigned*

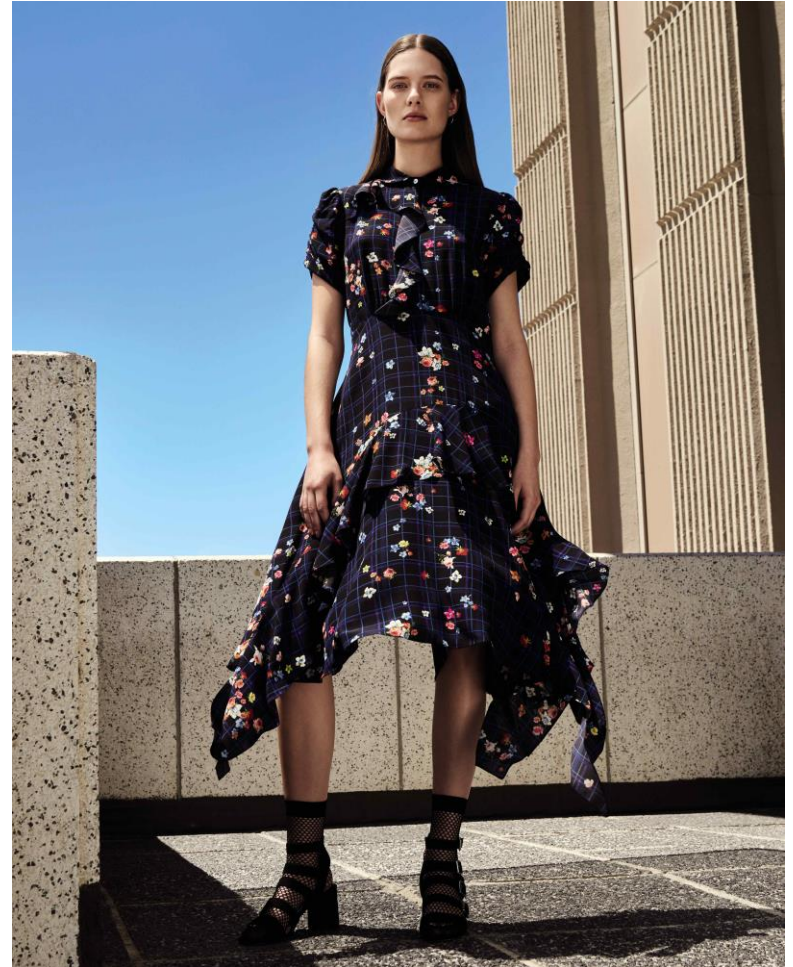
DESTINATION | DIGITAL | DIFFERENT

Half Year Results

19 April 2018

HIGHLIGHTS AND INTRODUCTION

- Market changing more rapidly than before
- Accelerated pace of change in Debenhams Redesigned
- A tough first half but encouraging early signs of progress
- Strengthened management team
- Five priorities to deliver strategic and financial progress
- Dividend rebased in line with target earnings cover





MATT SMITH

Chief Financial Officer

FINANCIAL HEADLINES

	H1 18
Group gross transaction value	(1.6%)
Constant currency group LFL sales	(2.8%)
Group LFL sales	(2.2%)
Gross margin rate	(160 bps)
Underlying Profit before tax ¹	£42.2m
Underlying earnings per share ¹	2.8p
Net debt	£248.2m
Pension surplus	£91.5m
Dividend per share	0.50p

¹ Before exceptional costs

SEGMENTAL RESULTS

£m	H1 18			Variance vs. H1 17		
	UK	Int'l	Group	UK	Int'l	Group
Gross transaction value	1,303.3	346.8	1,650.1	(3.1%)	4.5%	(1.6%)
EBITDA	71.6	31.9	103.5	(39.3%)	2.6%	(30.6%)
Operating profit	19.7	26.8	46.5	(70.8%)	1.5%	(50.5%)
Net finance cost			(4.3)			29.5%
Underlying profit before tax ¹			42.2			(51.9%)
Exceptional costs			(28.7)			(100.0%)
Reported profit before tax			13.5			(84.6%)
Taxation			(2.2)			86.4%
Share of loss of non-integral associates			(0.5)			(100.0%)
Profit after tax			10.8			(84.9%)
Underlying earnings per share ¹			2.8p			(3.0p)
Basic earnings per share			0.9p			(4.9p)

¹ Before exceptional costs

EXCEPTIONAL COSTS

£m	H1 18		FY17	FY18	FY19	FY20	Total
Warehouse restructure	6.5	Exceptional costs	36.2	c.40	c.10		c.85
Review of operating model	7.1	Cash impact in year ¹	8.5	c.25	c.10	c.7.5	c.50
Store closures and impairment	15.1						
	28.7						

¹ Total cash impact of exceptional costs in H1 18 is £10.8m. £7.8m relating to FY18 and £3.0m relating to FY17

INTERNATIONAL

£m	H1 18			Variance vs. H1 17		
	Magasin du Nord	Ireland Franchise Other	Total	Magasin du Nord	Ireland Franchise Other	Total
Gross transaction value	189.2	157.6	346.8	+4.1%	+4.9%	+4.5%
EBITDA ¹	20.1	11.8	31.9	+5.8%	(2.5%)	+2.6%
Operating profit ¹	16.4	10.4	26.8	+3.8%	(1.9%)	+1.5%

¹ Before exceptional costs

DIGITAL DRIVES GROWTH. POSITIVE CURRENCY IMPACT

	Contribution to LFL %	
UK	(3.0%)	Digital growth +9.7% vs LY
International	+0.2%	GTV £304m
Constant Currency LFL	(2.8%)	
Currency impact	+0.6%	
Reported LFL	(2.2%)	

ADDITIONAL MARKDOWN DRIVING MARGIN REDUCTION

Group gross margin (bps)

	H1 18
Intake	(20)
Markdown	(130)
Sales mix ¹	(10)
Total	(160)

¹Includes brand mix and category mix

Margin (bps) reduction

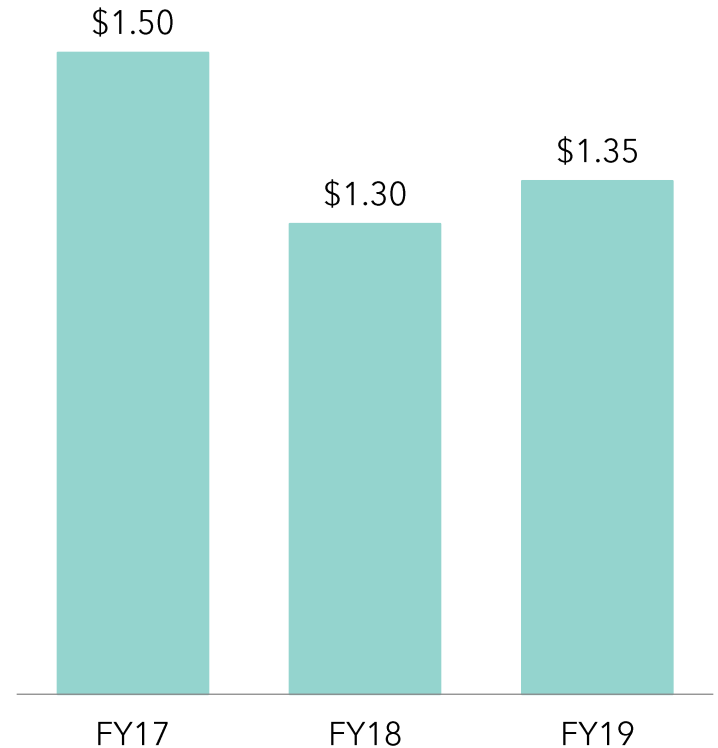
- Competitive pressures from volatile market
- Tactical promotional activity
- Optimising end-season stock position

MITIGATING CURRENCY IMPACT

Mitigation

- Better buying e.g. category management
- Higher full price sell through
- Maintaining competitive pricing
- Fully hedged for FY18, c75% hedged for FY19

Currency hedged rates



COSTS WELL CONTROLLED AND IN LINE WITH GUIDANCE

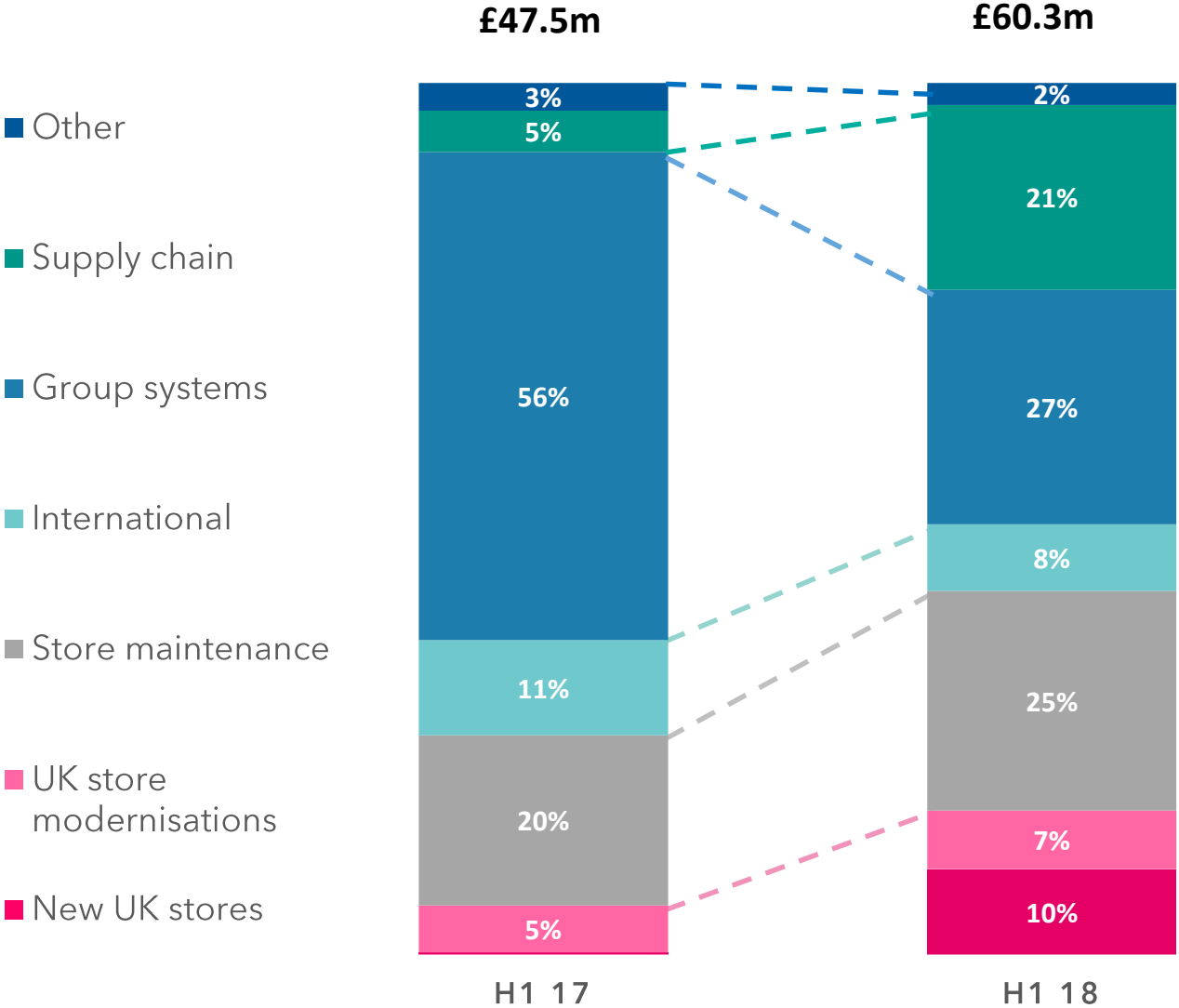
	<i>% change vs LY</i>
UK	
Store costs	(0.3%)
Digital costs	+4.6%
Digital costs as % sales	70 bps improvement
International	
Store + digital costs	+3.0%
Other costs	+4.4%
Total operating costs	+1.5%
Total operating costs in constant currency	+1.0%

GOOD CASH GENERATION

	H1 18 £m	H1 17 £m
Operating profit ¹	46.5	93.9
Depreciation & amortisation	57.0	55.2
EBITDA¹	103.5	149.1
Working capital	38.2	7.1
Exceptional items	(10.8)	-
Capital expenditure	(60.3)	(47.5)
Investment in associate	(7.5)	-
Cash flow before financing & taxation	63.1	108.7

¹Before exceptional costs

CAPITAL INVESTMENT MIX TO SUPPLY CHAIN



NET DEBT

	H1 18 £m	H1 17 £m
Cash flow before financing & taxation	63.1	108.7
Uses of cash		
• Taxation	(0.4)	(8.7)
• Financing	(4.9)	(6.7)
• Dividends paid	(29.4)	(29.4)
Other lease/non-cash movements	(0.7)	(1.8)
Change in net debt	27.7	62.1
Opening net debt	275.9	279.0
Closing net debt	248.2	216.9
Leverage ratio*	1.4x	0.9x

£520m facility available, with c.£270m headroom at H1

* Net debt/EBITDA

DIVIDEND AND CAPITAL ALLOCATION

Priorities for cash

- Invest in the Debenhams Redesigned strategy
- Pay dividends in line with our dividends policy of maintaining dividend cover of around 2.0x
- Medium term target of debt reduction

Guidance

- Maintain debt levels at around FY18 levels over the next three years
- Maintain capital investment levels of £130m - £150m
- Continue with dividend cover of around 2.0x, reducing the interim dividend to 0.50 pence per share

SUMMARY OF GUIDANCE FOR FY18

Group gross margin	c. (100bps)
Total costs	+0% to +1%
Depreciation & amortisation	c. £115m
Net finance cost	£10m to £12m
Taxation*	c. 20%
Capex	c. £140m
Net debt	c. £300m to £320m
Exceptional P&L costs	c. £40m

* After exceptional charges



SERGIO BUCHER

Chief Executive

CREATING SHAREHOLDER VALUE

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

Growth

Simplify & Focus

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

Efficiency

Shareholder Value

OPERATIONAL HEADLINES

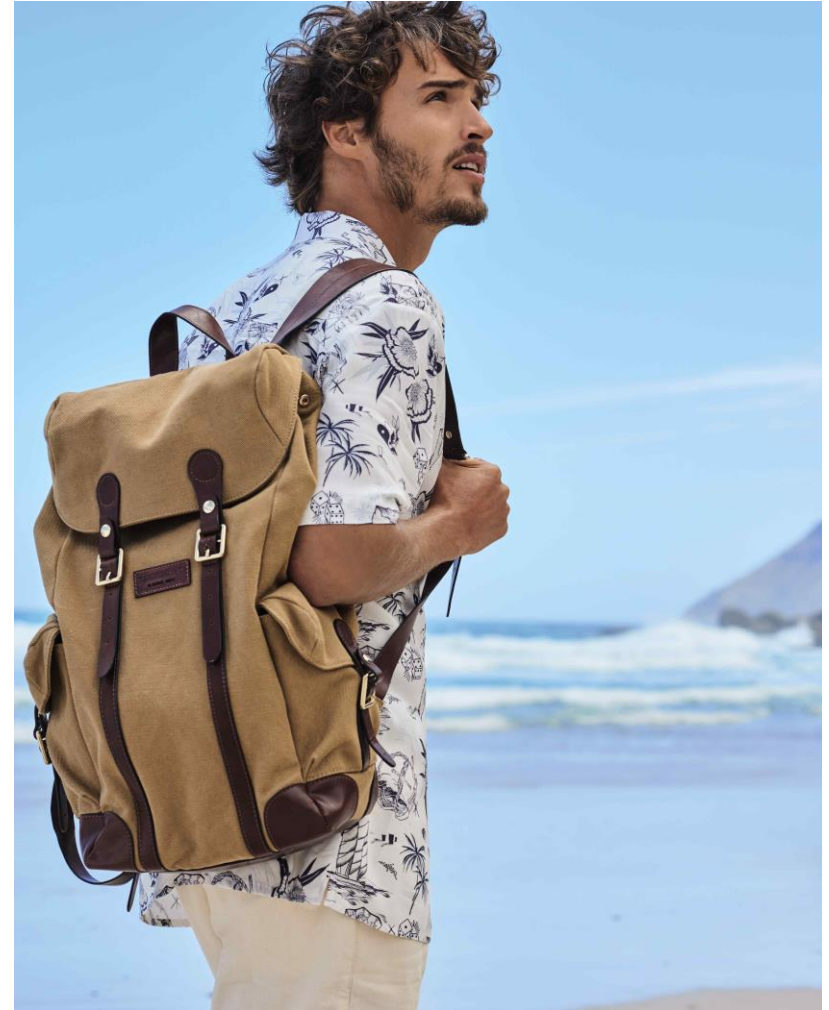
- Markets challenging but signs of strategic progress confirm direction is right
- Senior management team complete
- Digital growth above market
- Growth in destination categories of Beauty and Food
- Held market share in declining clothing market
- Progress in partnerships
- Five point action plan: self help and scalable activities



ACTION PLAN

Five near term priority actions

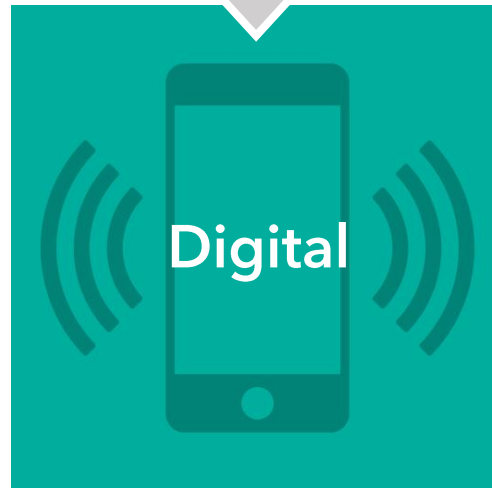
1. Above market digital growth
2. Growth in beauty through digital/social
3. Improve fashion product
4. Change in-store experience
5. Deliver cost reduction activity



GROWTH FROM DIGITAL



Social Shopping



- Priority 1: **drive above-market digital growth**
- Mobify benefits extending across channels
- Focus on user experience

Simplify & Focus

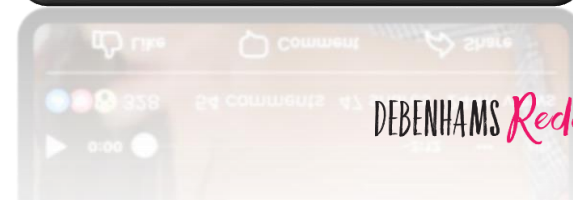
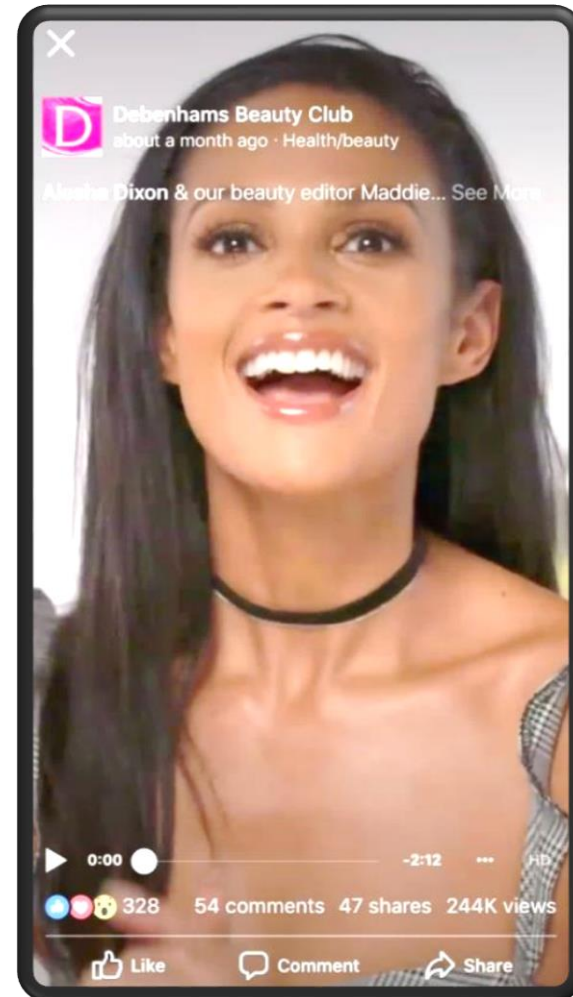


DIGITAL - DELIVERING ABOVE MARKET GROWTH



What we have done

- Digital growth of 9.7% in H1
- Mobile site now our largest "store"
- Mobify application driving speed and 16% uplift in conversion rates
- Upgraded presentation in destination categories
- >300 small enhancements to website

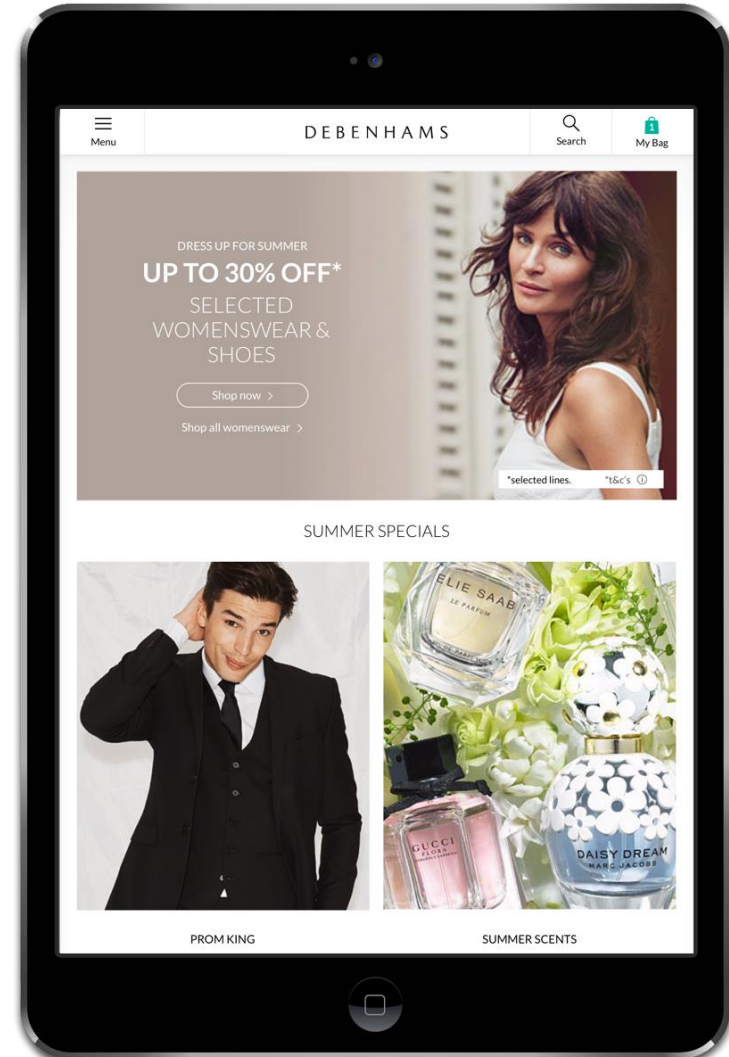


DIGITAL - DELIVERING ABOVE MARKET GROWTH



What we are going to do

- "Tablify" just launched with strong early response
- Mobify to be rolled out to desktop
- Improvements to horizontal menu navigation and results filter
- Improvements to search flexibility and simplified check-out



GROWTH FROM BECOMING A DESTINATION



Social Shopping

Destination



- Priority 2: **Beauty** Redesigned
- Priority 3: **Fashion** & Home product improvement
- Meet Me @ Debenhams

Simplify & Focus



BEAUTY & BEAUTY SERVICES



What we have done

- Delivered growth in competitive and promotional market
- Strong growth in digital sales
- Introduced new brands and rolled out exclusive offers
- Successful relaunch of Beauty Club increased base by 10%
- Launched blow LTD. in three stores



*Tom Ford beauty,
Summer 2018*

DEBENHAMS *Redesigned*

DESTINATION: BEAUTY REDESIGNED



Beauty Hall
Of The Future

- More dynamic retail space
- Develop beauty services



*Integrated Digital
environment*

- Improved customer experience
- Interactive customer relationships



Brand & Category
Diversification

- More choice
- Extend categories

DESTINATION: BEAUTY REDESIGNED



What we are going to do

- Beauty Hall of the Future to launch in two stores this autumn
- Roll out Beauty Redesigned elements in existing formats
- Opportunity to grow in skincare and add new categories such as male grooming
- Format trials to bring more beauty offer to smaller stores
- Next generation interactive Beauty Club



DESTINATION: IMPROVING PRODUCT IN FASHION & HOME



What we have done

- New Fashion and Home MD to complete senior team
- Clothing market share held in declining market
- Positive performance in brands where design refocused, eg Star by Julien Macdonald

What we are going to do

- Target progressive product improvement season by season
- More newness, eg European brand collection (BrandMRKT) in 45 stores
- Designer refresh under way: upgraded fabrics in Preen, Richard Quinn capsule range



*Richard Quinn design,
Summer 2018*

DESTINATION: IMPROVING PRODUCT IN FASHION & HOME



New partnerships in Furniture

- Home a successful department but own bought furniture currently loss-making and sub-scale
- Stevenage test confirms that Debenhams' own bought Home ranges can trade on tighter footprint
- Partnership with global retailer, Maisons du Monde, trialling in three stores
- Online pure play retailer Swoon trialling in Westfield store
- Both brands will be available online. Potential to scale



SWOON



DESTINATION – MEET ME @ DEBENHAMS



What we have done

- Food sales up 10% in H1, with roll out of seven new offers
- Operational improvements in own brand formats have supported performance
- Food penetration in Stevenage now almost 30% on <15% footage

What we are going to do

- Further ten new third party food offers this year
- Continuing to develop fresh and healthy Loaf & Bloom concept
- Plans for a further trial format to upgrade existing restaurant offer



Nando's at new Stevenage store

EFFICIENCY FROM SIMPLIFY & FOCUS



Social Shopping

Destination



Digital



Different



Simplify & Focus



- Priority 4: **Store estate strategy**
- Priority 5: **New operating model**

SIMPLIFY & FOCUS – STORE ESTATE STRATEGY



Closures

- Two stores closed in January 2018 at Eltham and Farnborough
- Continue to review store profitability in light of market conditions
- No change to existing plans for up to 10 closures

Right-sizing for catchment

- Successful trial at Uxbridge where store footage reduced by 20%,
- EBITDA performance >20% ahead of the chain
- At least 30 stores offer opportunity for similar right-sizing
- 25 stores coming up for lease renewal over five years



*Jasper womenswear,
Uxbridge Autumn 17*

SIMPLIFY & FOCUS - STORE ESTATE STRATEGY



Debenhams non-user, 18-34, Stevenage

SIMPLIFY & FOCUS – STORE ESTATE STRATEGY



Improving store environment

- Full modernisation in four stores, adopting Stevenage layout
- Mini refits across Fashion & Home in up to 20 others

“Sweating the box”

- Sweat! gyms opening in three locations
- First to open in Sutton store
- Other partnerships in discussion



*Star by Julien Macdonald,
Milton Keynes Spring 18*

SIMPLIFY & FOCUS – NEW OPERATING MODEL



What we have done

- Introduced flatter structure to speed up decision-making and improve accountability
- Removed 320 management roles in stores
- Reduced layers of staffing grades at support centres and consolidated into fewer floors

What we are going to do

- Phase 2 to underpin delivery of net annualised savings of £20m
- Reinvest some cost benefits in more customer-facing roles in store
- Continue roll-out of automation programme



INTERNATIONAL UPDATE



Magasin du Nord

- Magasin du Nord grew EBITDA by 6% building on consistent three year performance
- Performance supported by fast-growing digital operation, launching click & collect
- New digital market entries planned in Sweden and Norway

Other International

- Continue to exit low profit, low-growth markets. New franchise stores in Australia and Kuwait
- New franchise service model to give more consistent product offer
- Build on existing wholesale presence with third party partners



Debenhams store in Avenues 4, *DEBENHAMS Redesigned*
Kuwait

SUMMARY AND OUTLOOK

- Accelerating pace of change against challenging trading background
- Making progress, especially in digital - but plenty still to do
- Focused and refined action plan underpinned by cost savings
- Priorities for capital allocation; facilities headroom
- Targeting financial and strategic progress in FY2019



CREATING SHAREHOLDER VALUE

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Shareholder Value



APPENDIX



PENSION SCHEME VALUATION IN ACCOUNTS

	H1 18 £m	H1 17 £m	FY17 £m
Pension scheme assets	1,089.5	1,089.3	1,123.4
Pension scheme liabilities	(998.0)	(1,042.5)	(1,042.5)
Net surplus	91.5	46.8	80.9

SPACE AND STORE NUMBERS

	Own-operated space (000 sq ft)	UK stores	Int'l own-operated stores	Int'l franchise stores	Group
FY 17 close	13,109	166	17	63	246
Wolverhampton opening	66	1			1
Farnborough and Eltham Closure	(29)	(2)			(2)
Space reduction	(69)				
Franchise openings				1	1
Franchise closures				(5)	(5)
H1 18 close	13,079	165	17	59	241

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

SUMMARY OF CASH FLOW GENERATION

	FY 15 £m	FY 16 £m	FY 17 £m	H1 17 £m	H1 18 £m
EBITDA	238.6	239.7	217.0	149.1	103.5
Financing	(19.3)	(15.3)	(11.1)	(6.7)	(4.9)
Taxation	1.1	(11.0)	(16.3)	(8.7)	(0.4)
Exceptional items	-	(2.0)	(15.9)	-	(10.8)
Other	(2.3)	2.5	(0.7)	7.1	38.2
Net Capital investment ⁽¹⁾	(133.4)	(126.5)	(124.8)	(47.5)	(67.8)
FREE CASHFLOW	84.7	87.4	48.2	93.3	57.8
Dividends paid	(41.7)	(42.0)	(42.0)	(29.4)	(29.4)
Other	(1.3)	(4.6)	(3.1)	(1.8)	(0.7)
NET CASHFLOW	41.7	40.8	3.1	62.1	27.7
NET DEBT	319.8	279.0	275.9	216.9	248.2
Leverage ratio	1.3x	1.2x	1.3x	0.9x	1.4x

⁽¹⁾ Includes £7.5m investment of associate in H118