



# Debenhams plc

Interim Results

2007/08



**Chris Woodhouse**

Finance Director

# Results highlights

Gross transaction value	+1.2%
Like-for-like sales	-0.7%
Gross margin %	-20bps
Profit before tax <sup>(a)</sup>	£94.1m
Net debt	£(979.3)m
Earnings per share	7.6p
Interim dividend per share <sup>(b)</sup>	2.5p

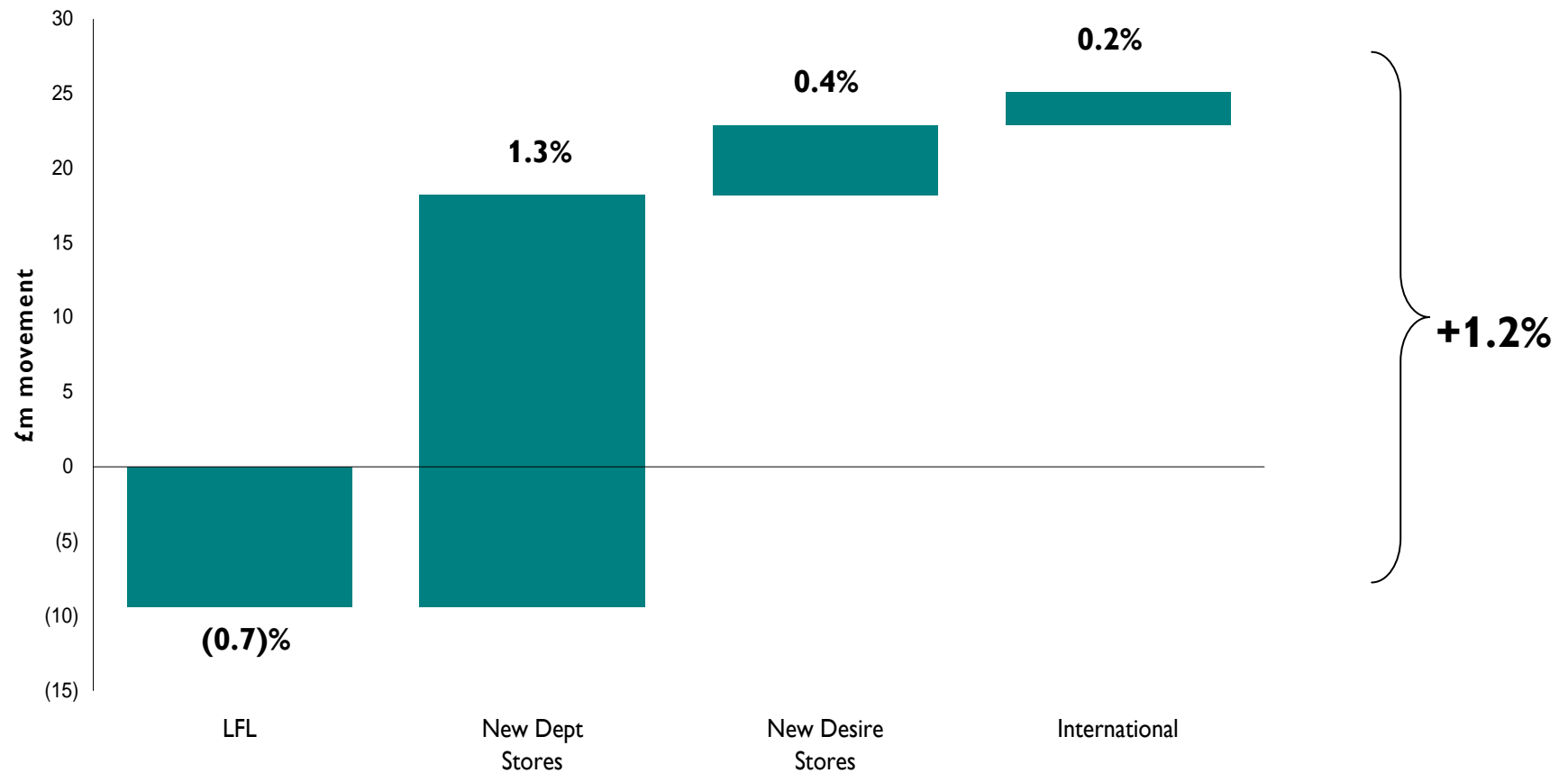
(a) After adding back £2.1m of capitalised bank fees;  
includes deduction of £7.0m flat lining of lease rentals (£101.1m before deduction)

(b) Scrip alternative to be proposed

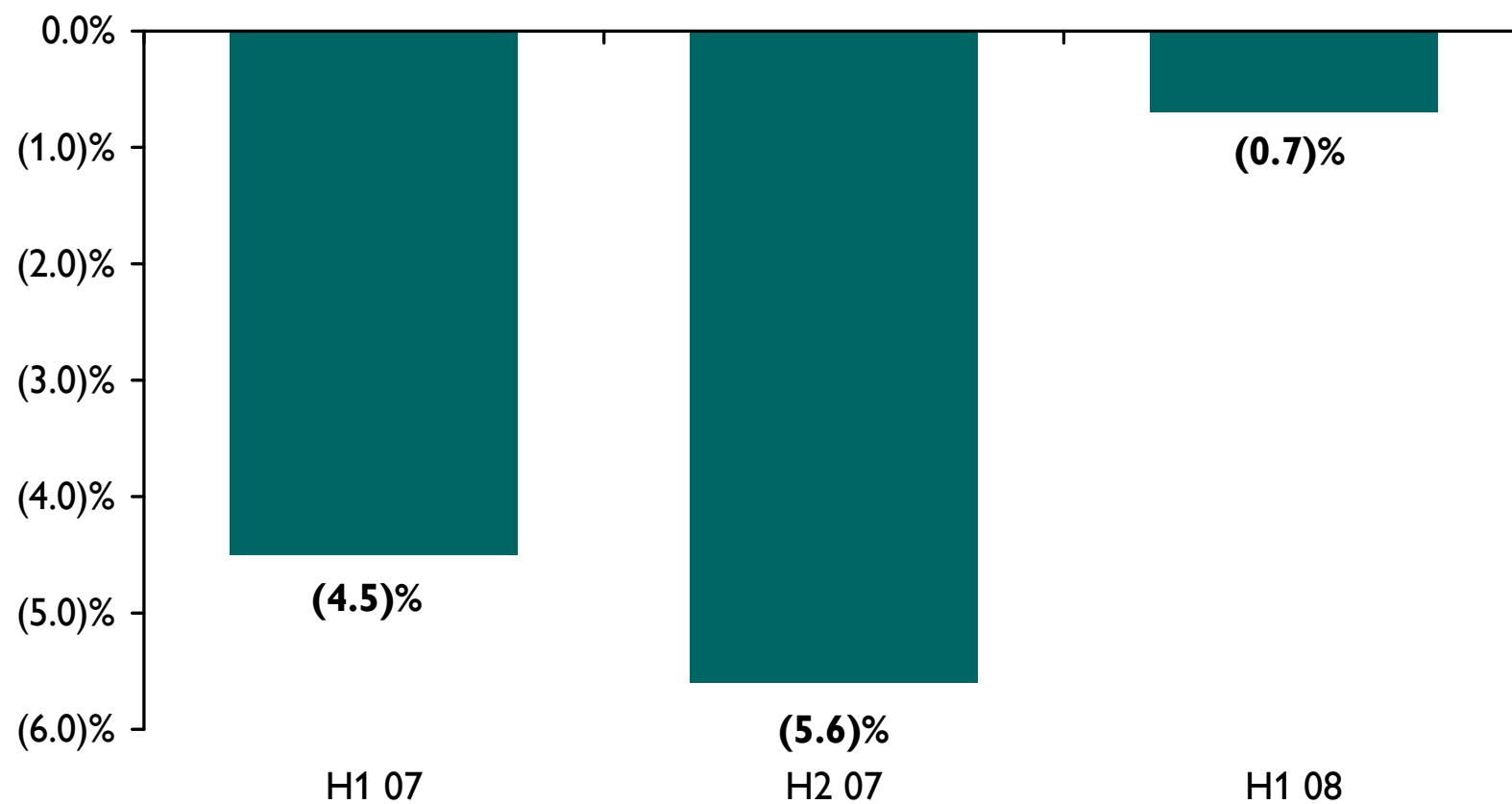
# Trading results H1 2008

£m	H1 08	H1 07	% <i>Change</i>
Gross transaction value	1,303.6	1,287.8	1.2%
EBITDA	171.9	186.4	(7.8)%
Operating profit	127.5	139.6	(8.7)%
Interest	(35.5)	(34.1)	
Profit before tax	<b>92.0</b>	<b>105.5</b>	<b>(12.8)%</b>
Taxation	(26.9)	(31.4)	
% <i>rate</i>	<b>29.2%</b>	<b>29.8%</b>	
Profit after tax	<b>65.1</b>	<b>74.1</b>	<b>(12.1)%</b>
Basic earnings per share	7.6p	8.8p	

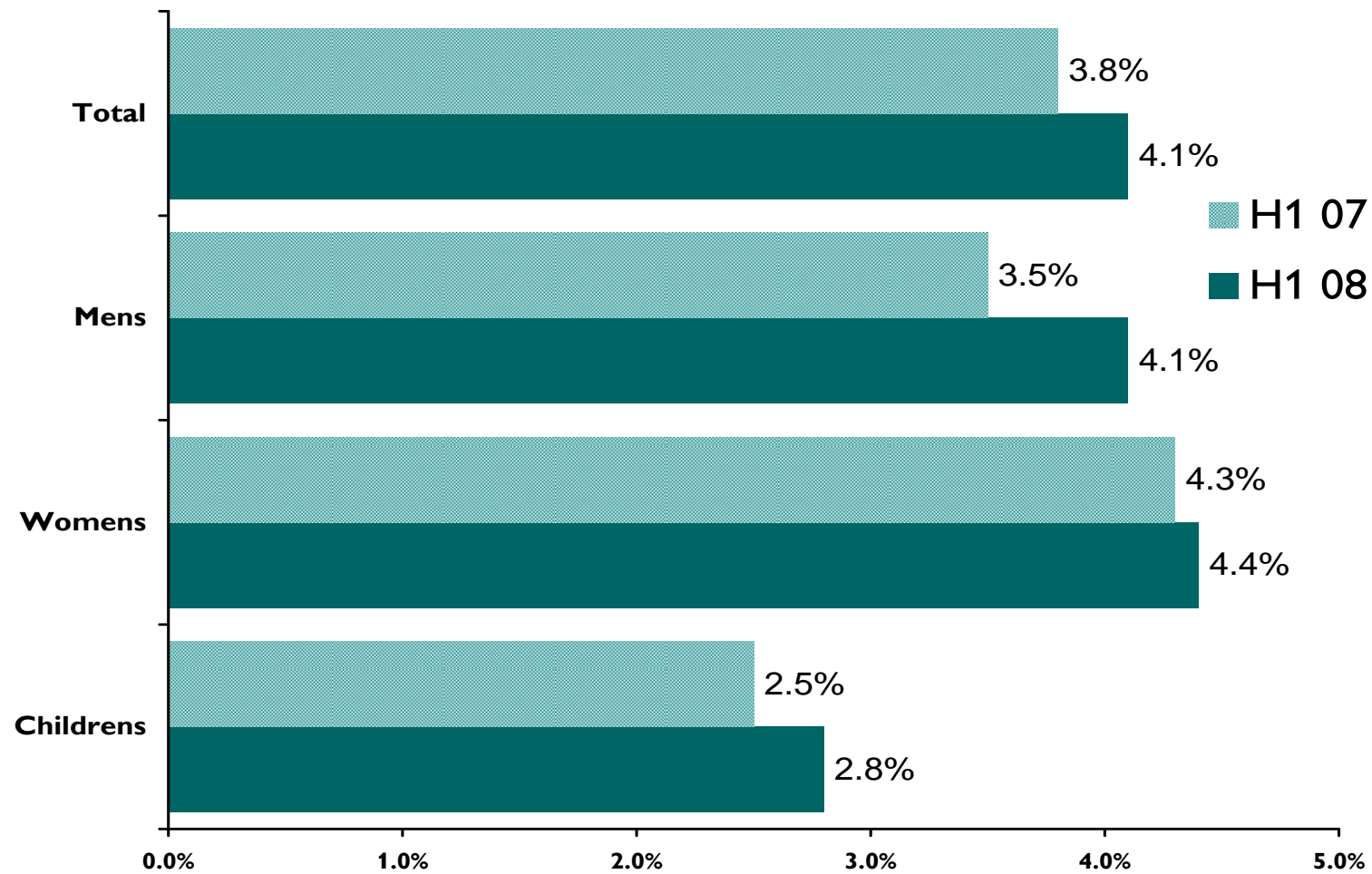
# Sales growth H1 2008



# LFL performance by half



# Clothing market share vs. last year



Source: TNS 12 week ending 2 March 2008

# Gross margin movement H1 2008

## Gross margin fall

Improved intake margin

Concessions & own bought mix

International & Direct

Pricing impact

**Total**

bps

+30

+20

-10

-60

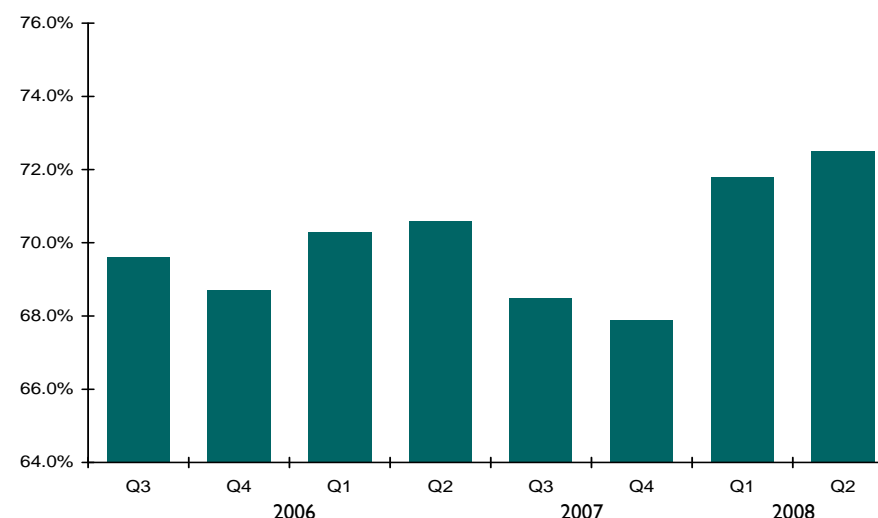
**-20**

- Positive impacts from a higher intake margin & improved own bought mix have been reinvested in pricing.
- Pricing impact anniversaries July/August

## Own bought mix: by half



## Own bought mix: by quarter





# Direct highlights

Gross transaction value H1

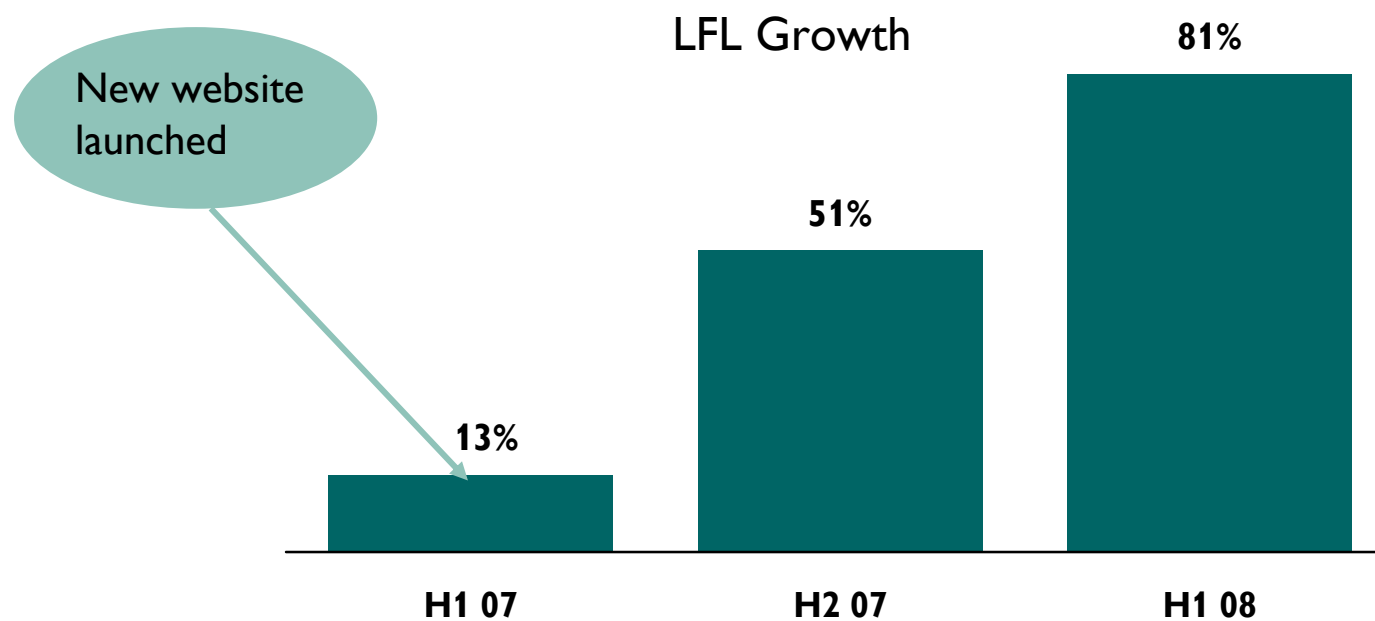
£21m

Sales growth

+81%

EBITDA

+169%



# Store costs

£m	H1 08	H1 07
<b>Payroll</b>	<b>129.0</b>	<b>126.3</b>
<i>% to sales</i>	<i>9.9%</i>	<i>9.8%</i>
<b>Store rent UK GAAP</b>	<b>64.5</b>	<b>60.0</b>
IFRS adjustment	7.4	7.8
<b>Total store rent</b>	<b>71.9</b>	<b>67.8</b>
<i>% to sales</i>	<i>5.5%</i>	<i>5.3%</i>

# Warehouse and distribution

£m	H1 08	H1 07	Change
Labour	9.8	8.2	1.6
Property	6.0	6.4	(0.4)
Transport	11.1	8.7	2.4
<b>Total distribution</b>	<b>26.9</b>	<b>23.3</b>	<b>3.6</b>
<b>% to Sales</b>	<b>2.1%</b>	<b>1.8%</b>	<b>0.3%</b>

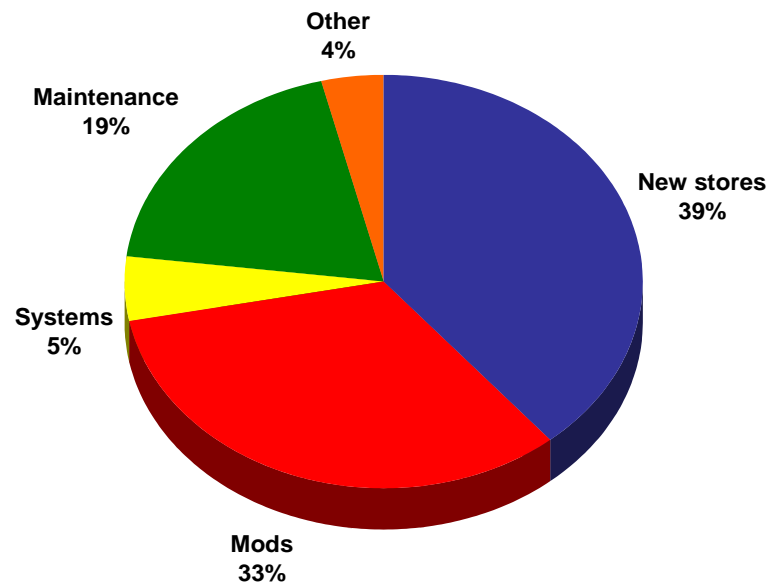
# Portfolio KPIs - Space 2008

		<u>Sq Ft. (k)</u>	<u>Dept Stores</u>	<u>Desires</u>	<u>Total</u>
<b>2007 Close</b>		<b>10,266</b>	<b>133</b>	<b>9</b>	<b>142</b>
<u>Dept store openings</u>	•Derby *	17	-		
	•Exeter *	31	-		
	•Glasgow Silverburn	89	1		
	•Welwyn	22	1		
	•Llanelli	22	1		
<u>Desire store openings</u>	•Ballymena	15		1	
<u>Closures</u>	•Jervis Street	(89)	(1)		
<b>2008 H1 Close</b>		<b>10,373</b>	<b>135</b>	<b>10</b>	<b>145</b>
<u>Dept store openings</u>	•Ashford	61	1		
	•Bangor *	28	-		
	•Liverpool	125	1		
	•Dunfermline	55	1		
	•Blackpool	66	1		
<b>2008 Close</b>		<b>10,708</b>	<b>139</b>	<b>10</b>	<b>149</b>

\* Re-sites (incremental space)

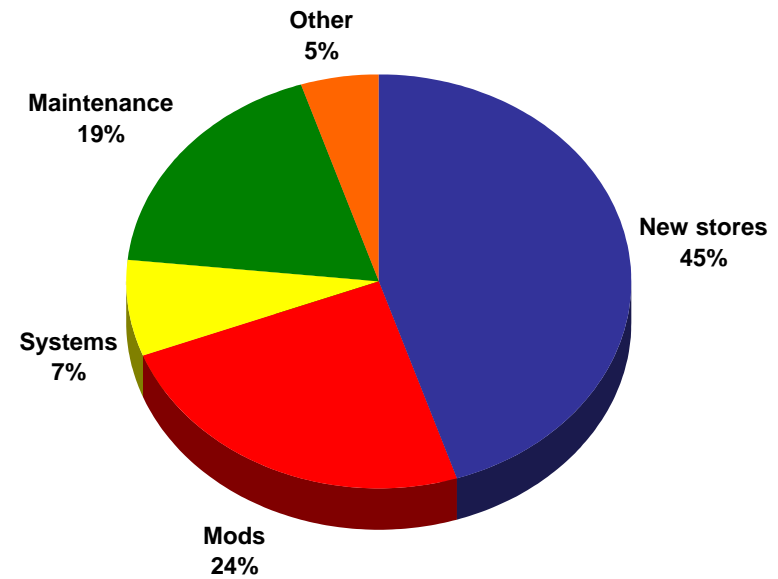
# Capital expenditure

## H1 08 Actual



£71.9m  
(H1 07 £44.5m)

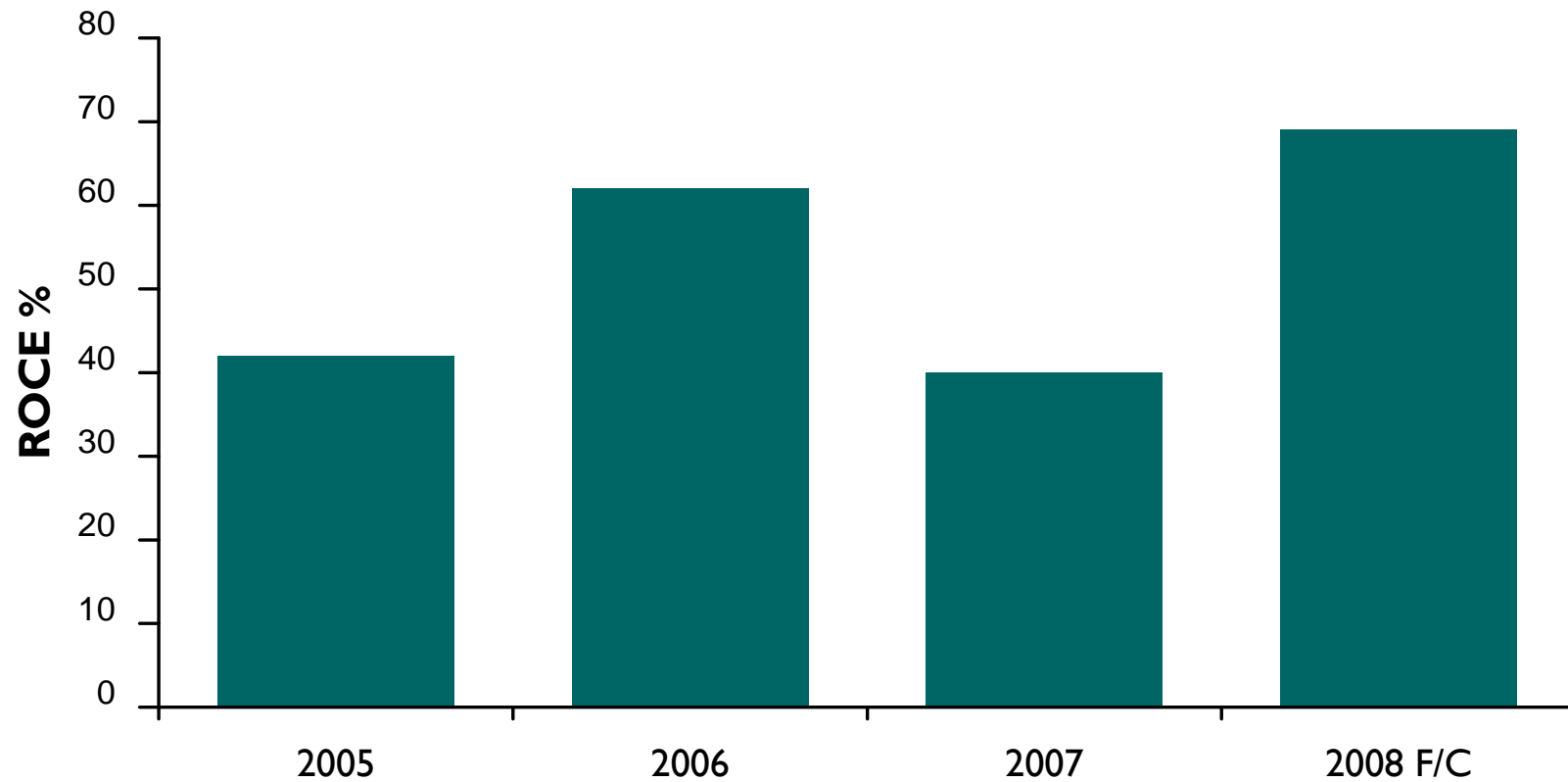
## FY 08 Guidance



£140m

**FY 09 Guidance: £100-110m**

# New store performance



ROCE: first year store EBITDA as percentage of net capital investment including working capital

## Balance sheet - highlights

£m	H1 07	FY 07	H1 08
Fixed assets	1,586	1,690	1,691
Stock	231	245	249
Other working capital	(342)	(403)	(421)
Net debt	(1,032)	(1,017)	(979)
Liabilities and charges	(322)	(352)	(364)
Shareholders' funds	121	163	176
Fixed charge cover	2.5x	2.3x	2.2x
Net debt / EBITDA	3.4x	3.5x	3.5x
Pension surplus	£26.1m	£87.3m	£100.6m

## Balance sheet - stock

Headline growth	<u>8.0%</u>
New stores	4.0%
Spring/Summer & Roches own bought impact	1.5%
Lower prices	2.0%
Direct expansion	<u>0.5%</u>
	<u>8.0%</u>

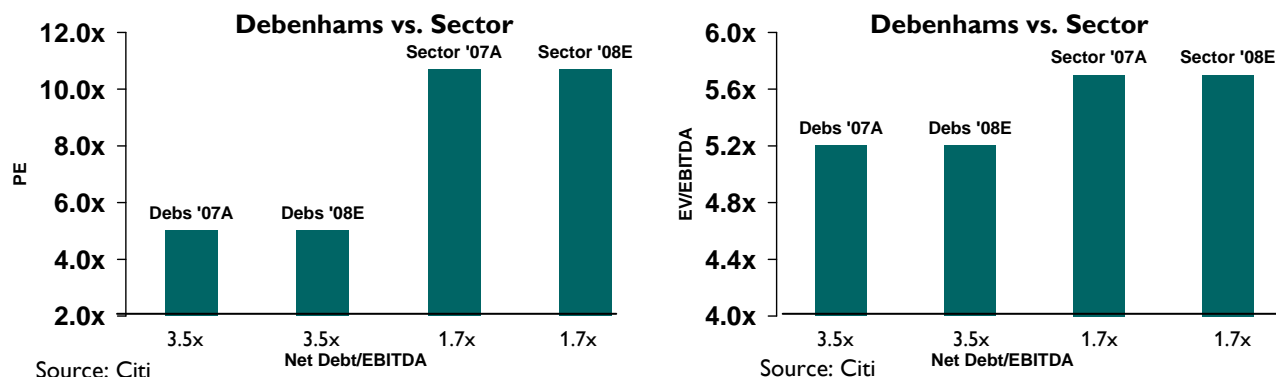


# Operating cash flow

£m	H1 08	H1 07
Reported operating profit	127.5	139.6
Depreciation <sup>(a)</sup>	40.8	43.6
Amortisation	3.6	3.2
<b>EBITDA</b>	<b>171.9</b>	<b>186.4</b>
Working capital including pensions	9.0	(13.0)
Capital expenditure	(68.4)	(44.5)
<b>Operating cash flow before financing and taxation</b>	<b>112.5</b>	<b>128.9</b>
<b>Net debt</b>	<b>£979m</b>	<b>£1,032m</b>
Swap/cap cover	£778m	£790m
Percentage cover	80%	77%
Weighted average cost of debt	6.18%	6.07%

(a) Includes profit/loss on disposal of fixed assets

# Impact of leverage in current environment



## Market comments overwhelmingly focused on balance sheet

High operating and financial leverage lead to a deserved valuation discount.

We acknowledge the modest looking 5.8x P/E, which is a 30% sector discount. However, this is a function of a stretched capital structure.

With high debt and a competitive market, this is not a stock for widows and orphans.

There is significant financial risk due to the amount of debt.

Debenhams capital structure remains a significant hurdle to earnings stability and corporate activity if this downturn persists.

- Objective to reduce leverage substantially
- Maintain growth initiatives and market share gains

## Leverage needs to be taken off the agenda for Debenhams

# Actions: leverage and cash generation

LTM EBITDA £289m

LTM CAPEX £138m

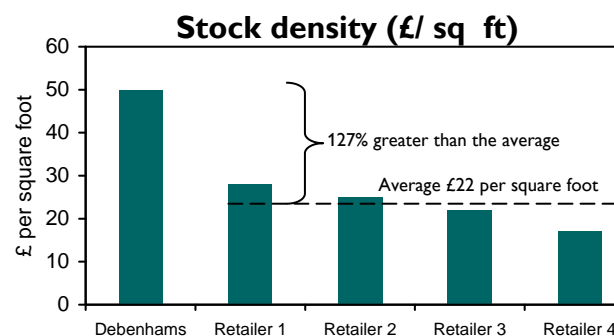
HALF YEAR  
NET DEBT  
£979m

NET DEBT  
TO EBITDA 3.5x

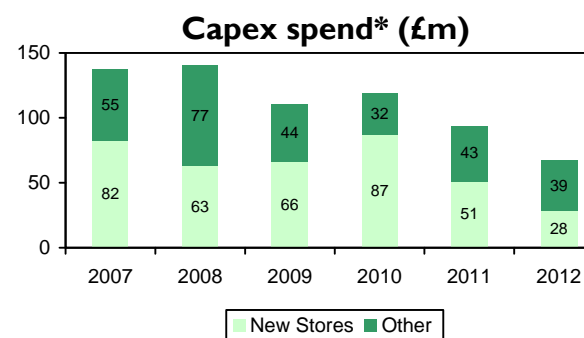
## 2008/9 Targets

- £20m+ cost reduction
- £110m capex 2008/9
- 15% reduction in options/stock
- Continued working capital focus
- Dividend

Stock density can be improved through option management & brand rationalisation



Capex requirements are falling



\*Excludes capital contributions.

**Net debt to  
EBITDA  
Impact**

3.5x

£140m pro forma  
net debt  
reduction

# Summary of first half

- Gross transaction value weeks up 1.2%
- Like-for-like sales down 0.7%
- Gross margin down 20bps following investment in lower prices
- Headline profit before tax\* ahead of consensus at £94.1m (H1 2007: £107.4m)
- Net debt at 1 March 2008 improved by £37.2m to £979.3m
- Basic earnings per share 7.6p (H1 2007: 8.8p)
- Interim dividend per share maintained at 2.5p; scrip alternative to be proposed

\*Before non-cash debt fee write-off of £2.1m (H1 2007: £1.9m)



**Rob Templeman**  
Chief Executive

# Recap on 2006/07 issues

## Menswear

- Range
- Price architecture

## Womenswear

- Reliance on outerwear
- Stock availability

## Competitive Arena

- Pricing
- Marketing

## Core Stores



# Driving 2007/08 – decisive action taken

## Improved product offer

- Design
- Quality
- Visual merchandising

## Price architecture

- Raising quality and design standards
- Price realignment

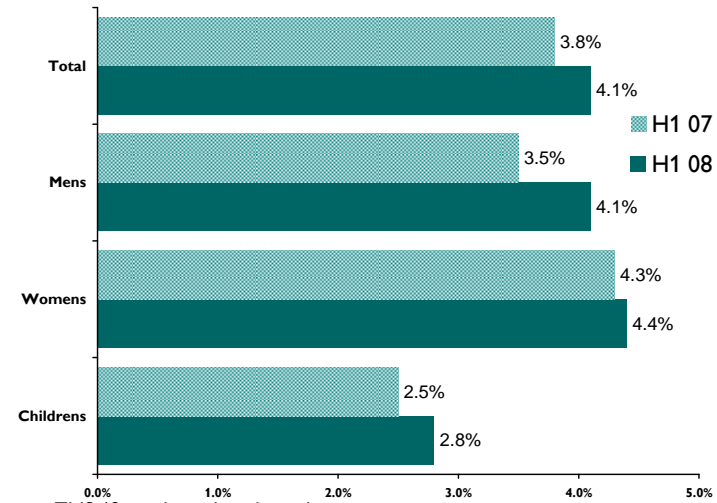
## Marketing

- New campaign launched
- Review of media strategy

## Core stores

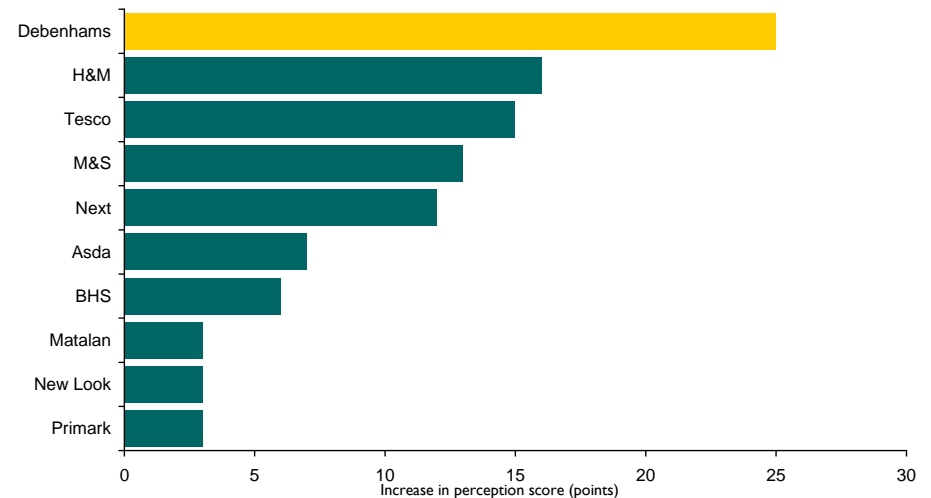
- Refurbishment programme

### Increased market share in all key categories



Source: TNS 12 week market share data

### Improvement in perception score Q4 vs. Q3



Source: Execution/YouGov

# Priorities for growth



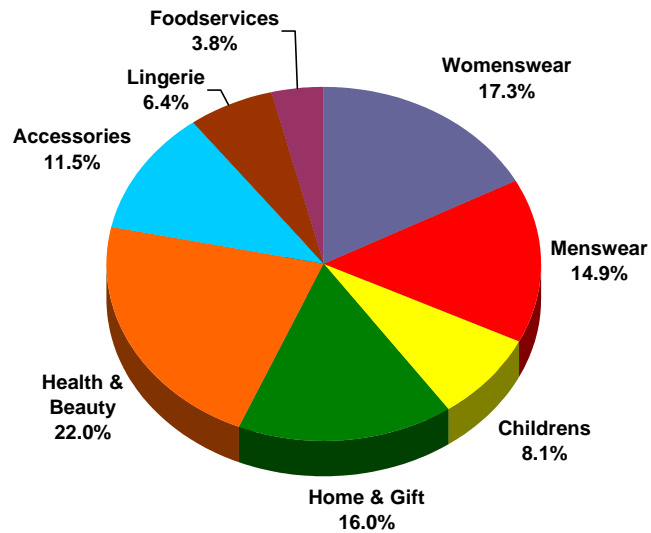


# Priorities for growth

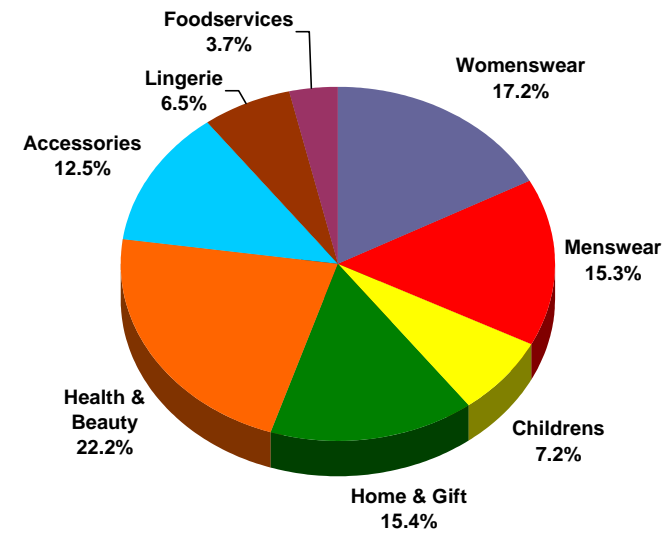


# Grow own bought merchandise

Own bought sales by product category H107



Own bought sales by product category H108



Own bought sales mix



# Market share gains through product differentiation

## Designers at Debenhams “Real Designers, Real Opinions”



- Differentiation through design and quality with real Designers who have strong brand heritage
- Values improved by raising design, quality and style content
- Real quality clues
- Stronger focus on exit margin and sell through
- Higher sales penetration



What next?

- Stronger Designer projection going forward “Power Departments”
- Rationalisation of smaller Designer brands

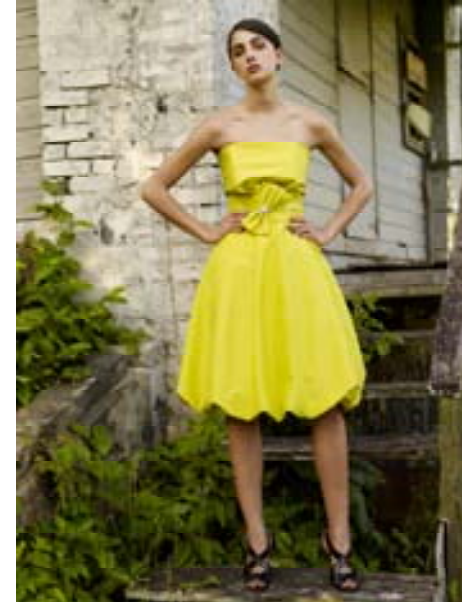


Home

- Higher Designer content
- Focus on fashion and living



# Designers at Debenhams spring summer 2008

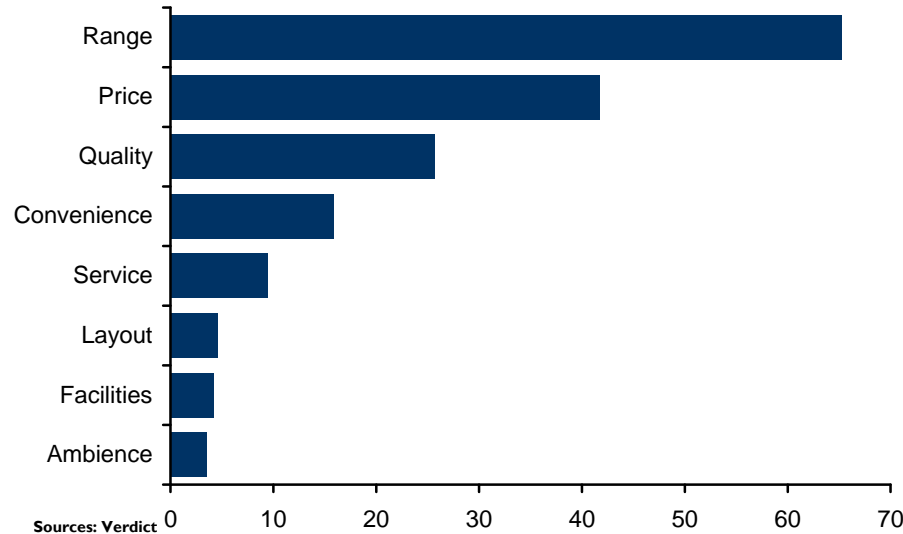


# Priorities for growth

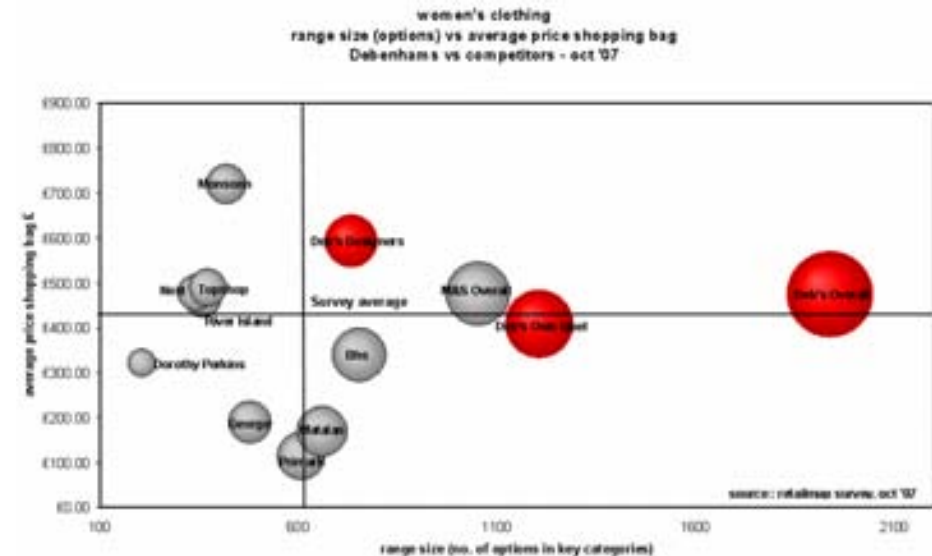


# Customers want real choice ...

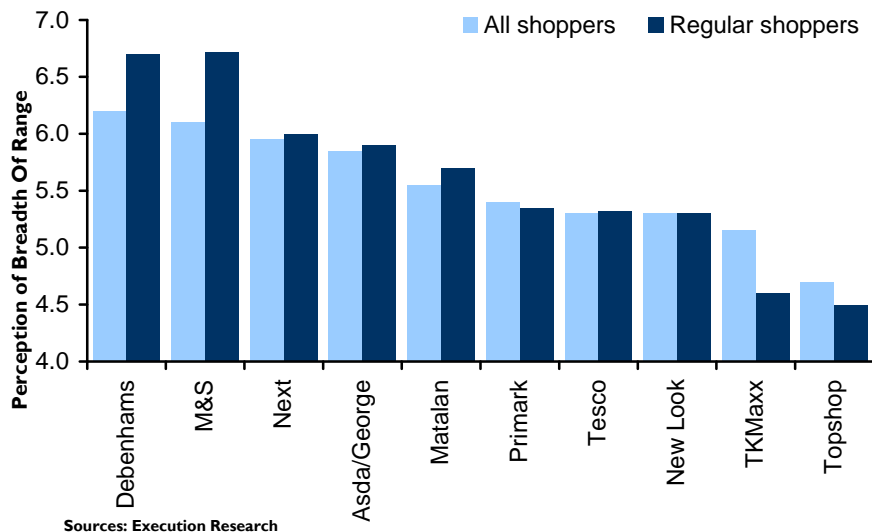
## Range, price and quality drive loyalty...



## Debenhams has largest breadth of range...



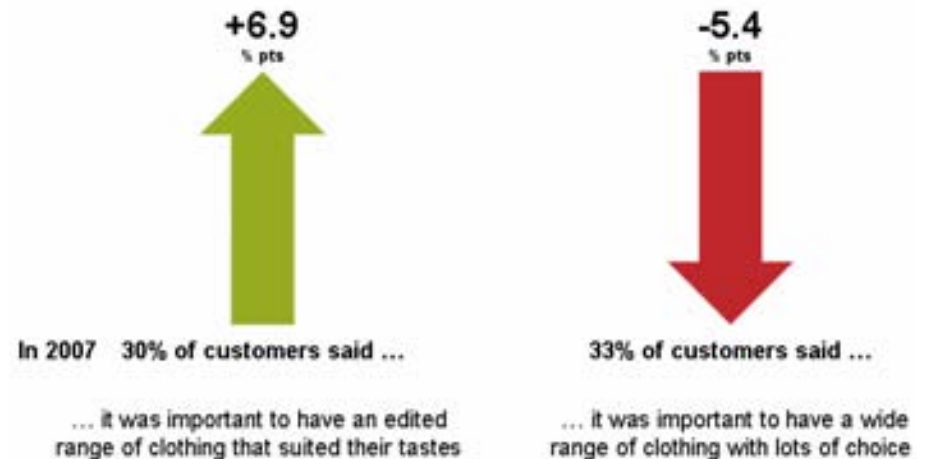
## But this does not convert into customer perceptions...



## Increasingly customers want edited choice...

Sources: Verdict

Change from 1999 in consumer views on range



# ... and a simpler shopping experience

## Customer perceptions

*Manitara*

*“They’ve really packed it in here....such a shame given how good ranges like Conran look with wide aisles and floor space.”*

redherring

*“There’s more to choose from here but it’s easy to miss things.”*

- Too many brands
- Impressed by quality, design and value – but could be missed due to layout
- More space required around fixtures, particularly in Designers at Debenhams

## Actions

- Option reductions trialled in centres of excellence and some refits
- “Easier to shop”
- Fewer, bigger brands
- Greater clarity, brands on targeted profile
- Clearer visual presentation

# Easier shopping experience through editing choice

## Analysis

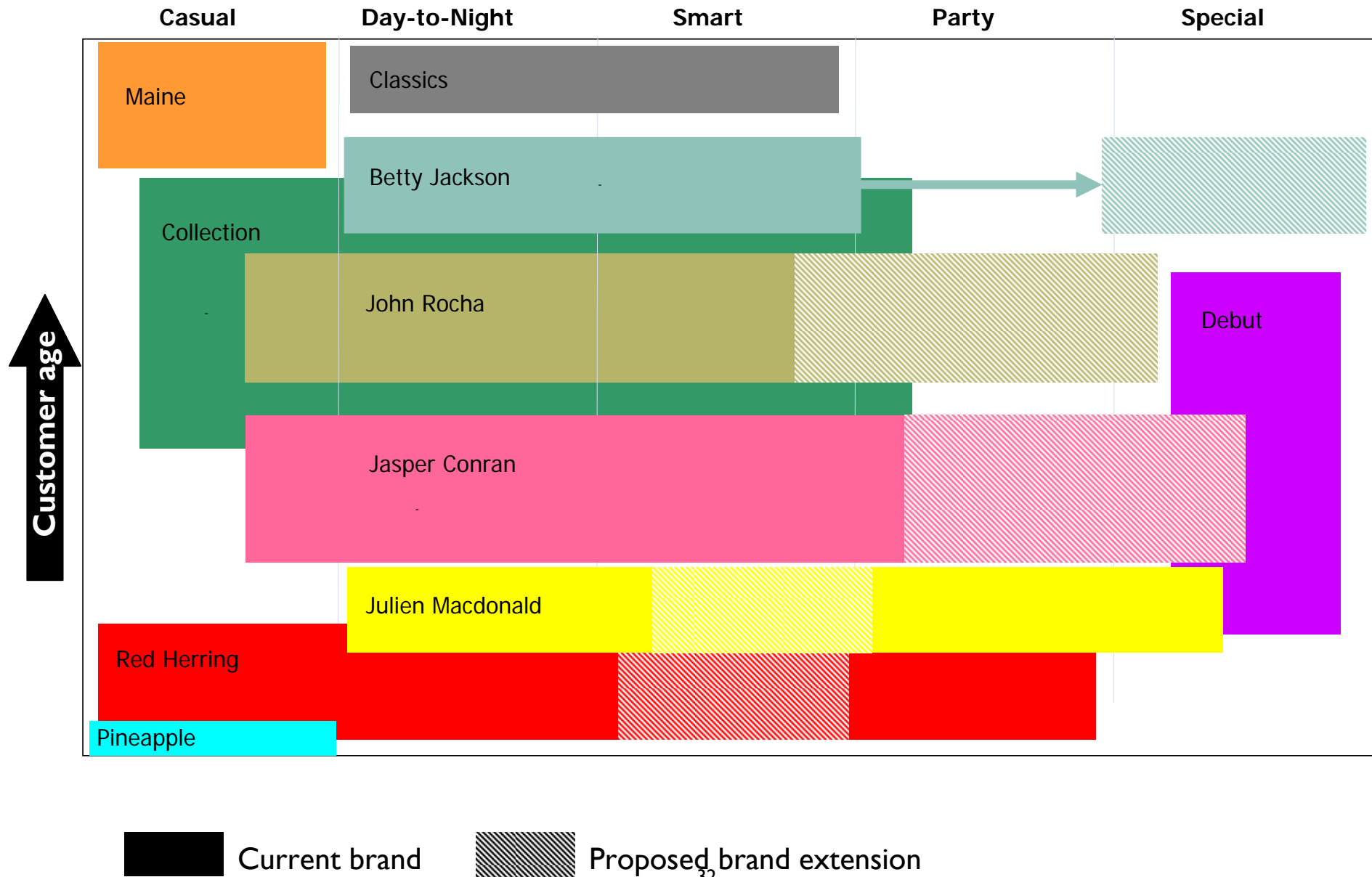
- Quantitative analysis versus the market
  - We have higher square to linear space conversion
  - We have substantially more options
  - We offer more choice

## Next steps

- Become “editors of choice”
- Brand rationalisation
- Stronger power brands
- Famous for categories/brands
- Continue to develop Designers at Debenhams ranges as a key differentiator
- Roll out new branding and visual merchandising techniques
- Reduce options and reinvest some of the “cash” to improve availability



# Example of brand map - Womenswear



# Priorities for growth



# Improving visual merchandising

## What good looks like



Gives each brand more credibility

Each brand more distinctive “greater clarity”

Positive first impression as you enter the department

Sense of space to browse freely within the ranges

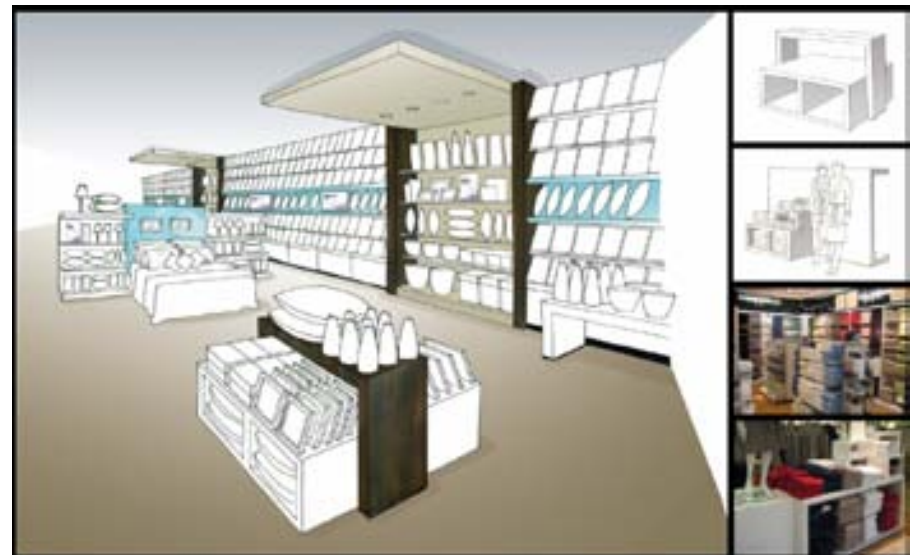
Product displays felt to be greatly improved leading to higher quality expectations

# Product initiatives: Home strategy

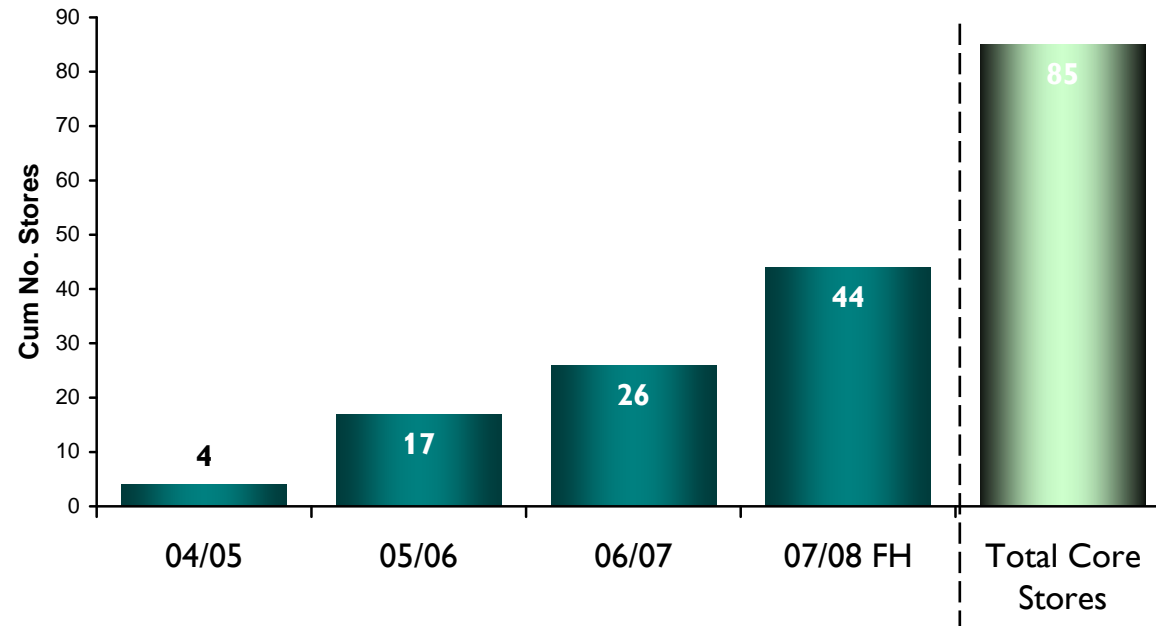
## Home

- New look Home department
  - Launching in Liverpool/White City
- Focused on fashion and style
- Higher Designer content
- Famous for Designers and Gifting
- Multi-channel
- This offer is being developed to be more visually inspiring and easy to shop across all channels

## 20:20 Concept



# Store refurbishments



- 18 stores refurbished during first half
  - 14 stores performing well
  - 4 stores need to improve (includes 3 defensive refurbishments)
- Anticipated ROCE for full year c.24%\*
- Customers responding well
- Better sales uplifts during prime trading
- Latest tranche focused on margin improvements and own bought mix
- Programme slowed, 41 stores still to complete

\*Including 3 defensive refurbishments anticipated ROCE 16%

# Collection





# J by Jasper Conran



# Rocha.John Rocha





# Jasper Junior

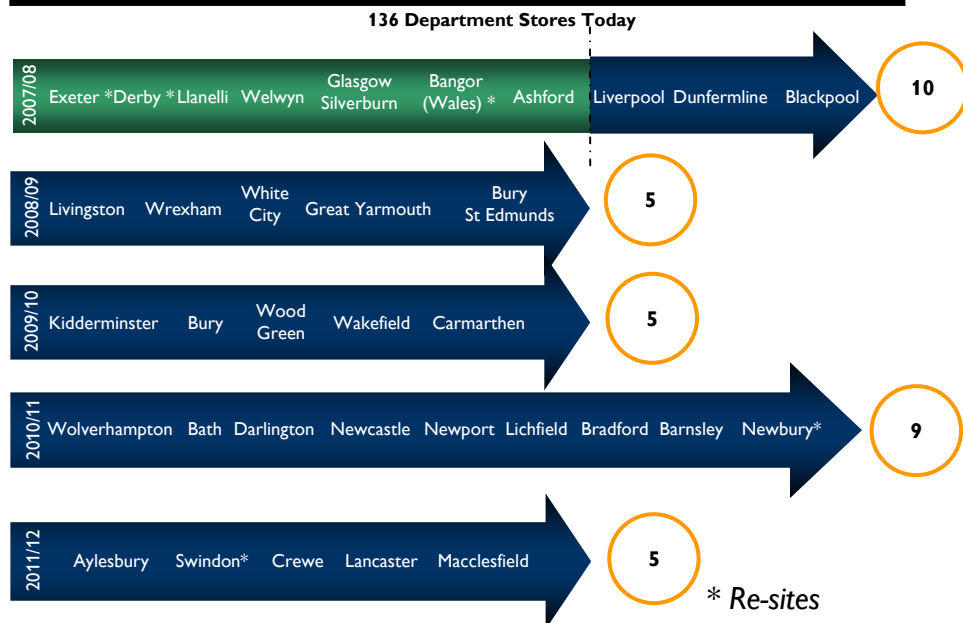


# Home

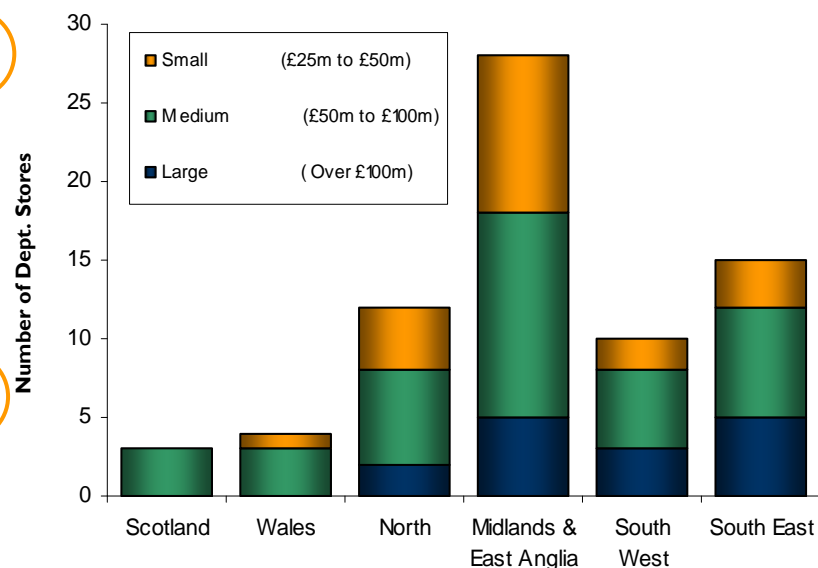


# New department stores

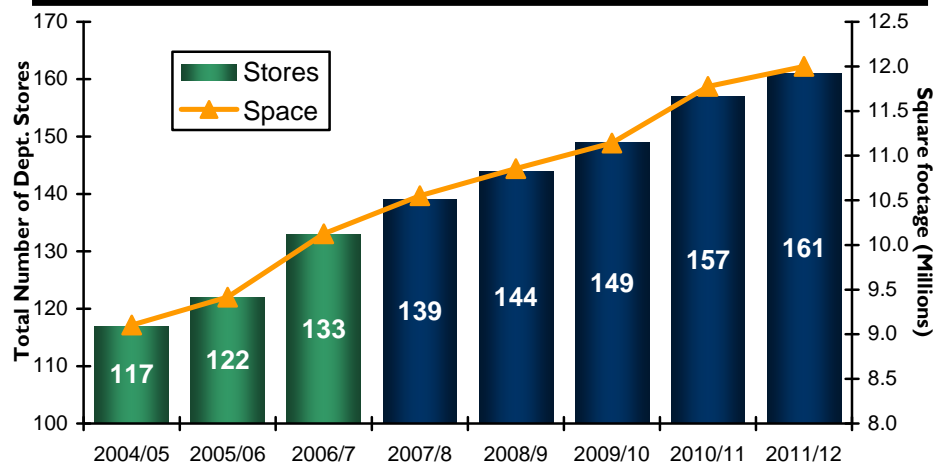
## Contracted new department store pipeline



## Potential for further stores



## Space growth



## Return on Investment (1 year)

Av. Store Size (ksqft)	77
Capex (£ per sqft)	95.3
Capital (£m <u>net of Contributions</u> )	2.0
Stock Investment (£m)	1.6
Sales (£m inc VAT)	21.0
Margin % Sales	45.0%
EBITDA (£m)	3.7
ROIC (inc. pre opening costs)	70.1%

# Desire

## Unique concept



## Return on investment

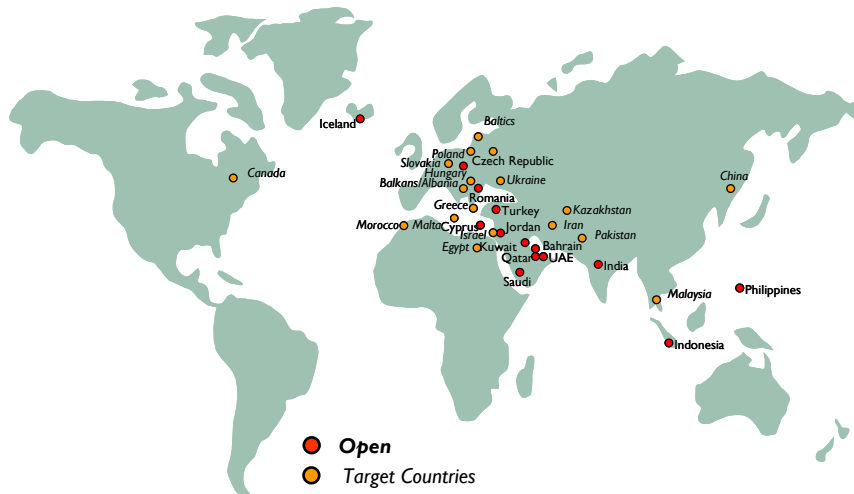
	Desire	Dept Store
Av. Store Size (ksqft)	14	77
Capex (£ per sqft)	139.5	95.3
Capital Investment (£m <u>net</u> )	1.5	2.0
Stock Investment (£m)	0.5	1.6
Sales (£m inc VAT)	4.2	21.0
Margin % Sales	50.5%	45.0%
Store EBITDA (£m)	0.7	3.7
ROIC	34.6%	70.1%

## Next steps

- Small town focus
- Potential for 100 stores nationwide
- 7 under negotiation
- Expect out of town rents to fall for new sites
- c.95% own bought merchandise

# International

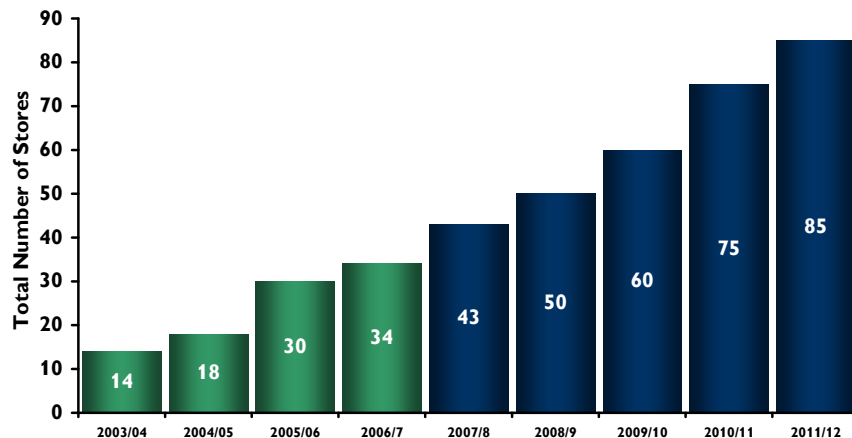
## Store portfolio – 39 stores opened in 15 countries



## Next steps

- Roll out small store format to developing markets
- Rapid expansion plan in next 3 years
- Targeting new markets incl. Poland, Greece, Ukraine and Malaysia

## International store growth



## Openings this year and planned next

- Second half openings in Romania, India, Saudi Arabia and Indonesia
- 7 new stores identified for opening in 2008/9

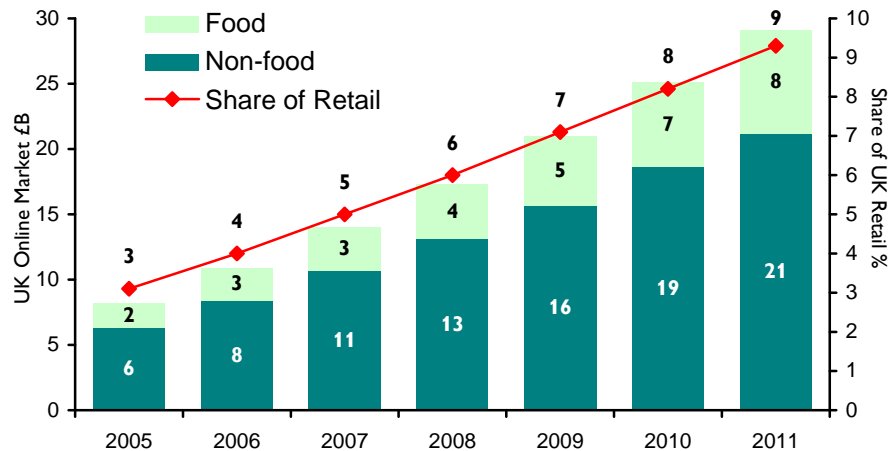


# Priorities for growth



# Growth of UK online shopping

## UK online sales growth



Source: Verdict UK eRetail 2007; Excludes insurance

## debenhams.com



## Customer research

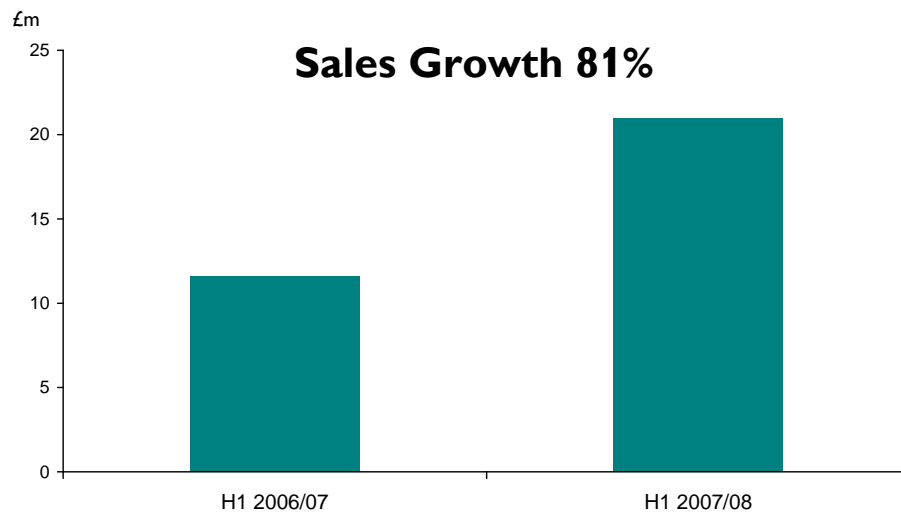
- Internet to account for c.9% of UK retail sales within 3 years. Multi-channel retailers growth outpacing pure players
- Clothing/footwear predicted to be one of the highest growth categories online
- Customers shopping online for convenience and inspiration
- Customers expect consistency across channels – 47% customers assume product not available online is not in store
- Customers value multi-channel integration – checking in store availability and ability to return items to a store considered “must haves”

# Debenhams Direct growth

## Visual enhancement



## Debenhams Direct sales growth



## Business vision

- Single largest store
- Multi channel development
  - Click and collect
  - Stock availability facility
  - Micro sites
  - The largest choice of products on one site
  - Track and trace on delivery
  - Flexible delivery options
- Added features to give customers inspiration
- Reviewing broadband opportunities



# Priorities for growth



## De-leveraging the balance sheet

Leverage needs to be taken off the agenda

- Cost restructuring
- Reduce number of options/amount of stock
- Continued focus on working capital
- Progressive reductions in capital expenditure

£140m pro forma reduction in net debt in 2008/9

## Current trading

For 32 weeks ended 12 April

- Gross transaction value up 0.8%
- Like-for-like sales down 1.0%
- Gross margin down 10bps
- Further gains in market share

# Priorities for growth





# Debenhams plc

Interim Results

2007/08