

SAKS INCORPORATED

Goldman Sachs Global Retailing Conference

September 6, 2002

Company Overview

- 356 stores
 - 61 luxury department stores
 - 201 traditional department stores
 - 42 specialty department stores
 - 52 outlet stores
- Geographically diverse operations in 39 states
- Annual sales exceeding \$6 billion

What We Have Accomplished

- During 2001 and in the first half of 2002, Saks achieved a number of important objectives
 - Reorganized its operating structure
 - Strengthened its management team
 - Enhanced productivity and reduced costs
 - Meaningfully improved its store base
 - Substantially strengthened its balance sheet
- Culminating in improved first half 2002 operating performance

What We Have Accomplished

Reorganized operating structure: Two distinct business segments with clear strategic positioning

■ Saks Department Store Group - SDSG

Traditional department stores - “THE BEST PLACE TO SHOP IN YOUR HOMETOWN”

Parisian - A “SPECIAL” DEPARTMENT STORE

■ Saks Fifth Avenue Enterprises - SFAE

Saks Fifth Avenue - “THE MOST INVITING LUXURY SHOPPING EXPERIENCE”

Off 5th - Where customers can buy Saks Fifth Avenue merchandise for a “GEM OF A DEAL”

What We Have Accomplished

Strengthened management: Key additions enhancing an already strong team

- Added George Jones, President and CEO of SDSG, in March 2001
- Added Steve Sadove, Vice Chairman of Saks Incorporated, in January 2002

What We Have Accomplished

Enhanced productivity and reduced costs

- 2001 SG&A reduced \$40 million over 2000
- First half 2002 SG&A reduced an additional \$21 million
- Savings realized while improving service levels in our stores
- Cost reduction initiatives more than offset rising health care and retirement expenses and higher insurance premiums

What We Have Accomplished

Improved store base. Since the beginning of 1998:



- Over \$1.4 billion in capital spending
 - Opened 47 stores
 - Completely remodeled, expanded, or replaced 50 locations
 - Upgraded and/or partially remodeled majority of the remaining store base
- Closed/sold 29 unproductive stores

What We Have Accomplished

Substantially strengthened balance sheet

- Second quarter-end debt-to-capitalization was 37.4%, down from 40.7% one year ago
- Year-over-year debt reduction of \$223 million; two year reduction of nearly \$670 million
- Cash on hand of \$88 million
- Zero borrowings under \$700 million revolving credit facility in 2002

Recent Development

Strategic Alliance with Household International

- In a transaction estimated at \$1.4 billion, Household will purchase Saks' proprietary credit card accounts & balances
- Household will assume the Company's securitization liabilities of approximately \$1.1 billion
- Saks will use the net cash proceeds (expected to exceed \$300 million) for general corporate purposes, including repurchasing stock and/or reducing debt
- Saks will continue to provide customer service functions
- Alliance is consistent with the Company's objectives of increasing ROIC while reducing financial risk
- Scheduled to close by end of fiscal third quarter

Focus for 2002 and Beyond

- Execute to the strategic positioning of each of our businesses
- Value creation by substantially improving returns on invested capital

Focus for 2002 and Beyond

Value-creation focus - Improve ROIC

- ROIC target is to exceed 15% by the end of 2004
 - 1999: 15.0%
 - 2000: 12.8%
 - 2001: 9.9%
- Drivers of ROIC improvement:
 - Operating margin improvement
 - Improved inventory turnover
 - Reduced levels of capital deployed

Note: ROIC is measured on a pre-tax basis and defined as EBITDAR divided by [Fixed Assets + Goodwill + NWC + (8 x rents)]

Drivers of ROIC Improvement

- Operating margin improvement:
 - *Sales growth*
 - Low-to-mid single digit comparable store sales growth fueled by implementation of our focused strategies
 - New square footage averaging 1% to 2% per year
 - *Gross margin expansion:*
 - Disciplined inventory management
 - Advanced technology
 - *Incremental operating expense efficiencies and SG&A leverage*

Drivers of ROIC Improvement

- Improved inventory turnover
 - Targeted at 3.0x by 2004; 2.6x in 2001
- Modest levels of capital deployed
 - Capital spending of approximately \$175 million to \$200 million annually from 2002 to 2004
 - Store base and infrastructure in excellent condition
 - resulting from substantial capital investments (over \$1.4 billion since 1998)
 - only moderate levels of ongoing capital required

Technology

Driving ROIC improvement

- Implementing advanced technology at both SDSG and SFAE to improve product sell-throughs and enhance gross margins. Major initiatives include:
 - Assortment planning and inventory allocation by store
 - Markdown and pricing optimization
 - Size reporting and analysis

Technology

Driving ROIC improvement

- Strengthening SFAE existing capabilities and implementing systems at SDSG
 - Point-of-service clienteling
 - Data warehouse and sophisticated customer relationship management
 - Locator systems

Technology

Driving ROIC improvement

- Introducing other technologies to support service strategy, primarily at SDSG
 - PLU scanners
 - Alert technologies
 - Additional headset applications
 - Gift registry enabled kiosks

SDSG Overview

**“THE BEST PLACE TO SHOP IN YOUR
HOMETOWN”**

201 Traditional Department Stores:

PROFFITT'S McRAE'S YOUNKERS HERBERGER'S

CARSON PIRIE SCOTT BERGNER'S BOSTON STORE

42 PARISIAN Specialty Department Stores

SDSG Overview

- A leading, branded department store operator with stores located in 24 Southeastern, Midwestern, & Great Plains states
- 26.6 million square feet of high-quality, well-positioned real estate



SDSG Overview

- The “hometown” store with the number one or number two market share in 90% of our trade areas
- Established customer relationships and broad customer base, with 4.2 million active proprietary cardholders



SDSG Overview

SDSG's Traditional Department Stores - "The best place to shop in your hometown"

- Consistently offering a wide selection of merchandise tailored to the needs of our hometown customers, combining:
 - unique and limited distribution merchandise
 - competitively priced national brands
- Providing our guests with:
 - an innovative and convenient shopping environment
 - a friendly and knowledgeable staff

SDSG Key Strategic Initiatives

Executing to strategic positioning and improving ROIC through:

- Merchandising initiatives, focusing on:
 - Franchise businesses
 - Key items
 - Product differentiation
- Enhanced shopping experience
- Focused marketing
- Implementation of Parisian strategic plan

SDSG Merchandising Strategy

Franchise Businesses

- Authoritative assortments in:
 - cosmetics
 - women's shoes
 - women's sportswear
 - women's special sizes
 - social occasion dressing
 - gifts
- Targeted at 33% of sales in 2002 - up from 31% in 2001



SDSG Merchandising Strategy

Key Items

- Presenting customers with meaningful quantities and floor presentations of “must-have” selections - “What’s Hot,” “Incredible Value,” and “Great Gift Idea” programs
- Targeted at over 13% of sales in 2002 - up from 11% in 2001



SDSG Merchandising Strategy

Product Differentiation

- Achieving differentiation through:
 - Merchandise from unique vendors not carried by department store competition
 - Selections from emerging suppliers
 - Exclusive product from our core vendors
 - Exploiting proprietary brand opportunities, including new launches as well as “Relativity” product line extensions
- Differentiated product planned at approximately 22% for 2002 - up from 17% in 2001

SDSG Merchandising Strategy

Examples of Innovation and Differentiation

- Jane Seymour
- Laura Ashley
- Ruff Hewn
- Roots
- Smith & Hawken
- Oakley



SDSG Service Strategy

Enhancing the Shopping Experience

- Making our stores more customer-friendly and more convenient to shop
- 2 types of service supported by a focused staffing strategy
 - One-on-one personalized service in 9 key areas of the store
 - Fast, friendly, efficient “At Your Service” in the balance of the store

SDSG Service Strategy

One-on-one service areas supported by:

- Intensified training programs
- Enhanced clienteling
- Higher pay structure
- Dedicated wrap stands
- Innovative technology



SDSG Service Strategy

"At Your Service"

- Reconfigured the remaining areas of the stores with innovative customer service centers
- Staffed to deliver efficient transactions



SDSG Service Strategy

Other service elements being introduced:

- Coffee bars
- More comfort/seating zones
- More in-store directional signing
- Upscale strollers/carts
- Package check
- Valet parking
- Host services
- Wrap-it Express



SDSG Marketing Strategy

- Focus on franchise businesses, key items, and differentiated product
- Emphasize “hometown” strategy
- High visibility launches of new, exclusive brands
- Increase purchasing by existing customers through leveraging customer databases with enhanced loyalty programs
- Reduce frequency and depth of sale coupons to enhance pricing credibility

FROM OUR HOMETOWN TO YOURS – introducing AAU Junior Olympic Athletes



LAUREN CANO
SPORT: Jump Rope AGE: 11
HOMETOWN: Lancaster, CA
FAVORITE THINGS: "I like to jump rope and make a lot of friends."



STEPHANIE MARTINEZ
SPORT: Race Walking AGE: 10
HOMETOWN: South Elgin, IL
FAVORITE THING: "Tumbling."



ANDRÉ & ANDREA BOOKER
ANDRÉ'S SPORT: Track & Field AGE: 11
HOMETOWN: Sarasota, FL
FAVORITE THINGS: "Football, track and field."
ANDREA'S SPORT: Track & Field AGE: 11
HOMETOWN: Sarasota, FL
FAVORITE THING: "Cheerleading."



CHASE SMITH
SPORT: Track & Field AGE: 11
HOMETOWN: Fort Wayne, IN
FAVORITE THING: "Playing basketball."



CLAIRE DONAHUE
SPORT: Track & Swimming AGE: 11
HOMETOWN: Knoxville, TN
FAVORITE THINGS: "Swimming & running."



ALICIA HALL
SPORT: Track AGE: 10
HOMETOWN: Silver Spring, MD
FAVORITE THINGS: "I like dancing, singing and running, especially."



HALEY PENNINGTON
SPORT: Jump Rope AGE: 9
HOMETOWN: Colorado Springs, CO
FAVORITE THINGS: "Spelling, looking and soccer."



HAMILTON BORDEN
SPORT: Track & Field AGE: 14
HOMETOWN: Louisville, TN
FAVORITE THING: "I enjoy the throwing events."



JERRICA JOHNSON
SPORT: Track & Field AGE: 14
HOMETOWN: Laurel, MD
FAVORITE THING: "My favorite hobby is basketball."



MEGAN KINDLE
SPORT: Baton Twirling AGE: 11
HOMETOWN: Knoxville, TN
FAVORITE THINGS: "Baton Twirling, dance and reading."



BRYON STEELE
SPORT: Track & Field AGE: 18
HOMETOWN: Gadsdenburg, MO
FAVORITE THINGS: "Listening to the radio."



CHRIS JONES
SPORT: Track & Field AGE: 9
HOMETOWN: Houston, TX
FAVORITE THING: "Playing basketball."



ARICK JONES
SPORT: Track & Field AGE: 10
HOMETOWN: Houston, TX
FAVORITE THING: "Playing football."



MAKENZIE BRAGG
SPORT: Trampoline & Tumbling AGE: 8
HOMETOWN: Welliton, OH
FAVORITE THINGS: "Tumbling, softball and dancing."



MEGHAN SATTERFIELD
SPORT: Soccer AGE: 11
HOMETOWN: Knoxville, TN
FAVORITE THING: "Soccer in the snow."



STERLING JONES
SPORT: Track & Field AGE: 11
HOMETOWN: Anderson, KS
FAVORITE THINGS: "Track, music and reading."



BRIAN DUPELOSIUS
SPORT: Track & Field AGE: 18
HOMETOWN: New Orleans, LA
FAVORITE THING: "Playing basketball."



TAKISHA WILLIAMS
SPORT: Track & Field AGE: 18
HOMETOWN: Ashton, MD
FAVORITE THINGS: "Sports, mentoring (kids), dancing and traveling around the world."



JENNA SCOTT
SPORT: Tumbling & Trampoline AGE: 12
HOMETOWN: Big Rapids, MI
FAVORITE THINGS: "Hanging out with friends and trampoline."



LINDSAY PENNINGTON
SPORT: Jump Rope AGE: 9
HOMETOWN: Colorado Springs, CO
FAVORITE THING: "My favorite hobby is math."



QUINCY JONES
SPORT: Track & Field AGE: 8
HOMETOWN: San Antonio, TX
FAVORITE THINGS: "Video games, soccer, reading, collecting rocks and looking for fossils."



ROBIN & JEFF WEATHERSBY
ROBIN'S SPORT: Karate AGE: 9
HOMETOWN: Waveland, MS
FAVORITE THING: "Playing the drums."
JEFF'S SPORT: Karate AGE: 12
HOMETOWN: Waveland, MS
FAVORITE THING: "Karate."



YOUR STYLE OF LIVING
Proffitt's

WELCOME TO KNOXVILLE
Good Luck at the Games!

SDSG - Parisian Positioning

A *"SPECIAL" DEPARTMENT STORE*

- Balanced assortment of better-priced brands and unique products
- Differentiated product - over 200 unique vendors added in 2002
- Merchandise complemented by distinctive store design and high level of personalized service

SDSG - Parisian Positioning

Unique vendors, not typically found in traditional department stores, include:

Judith Jack Brighton Mary Frances MAC Kate Spade
Nars Donald Pliner Tommy Bahama Robert Talbott
Sigrid Olsen Tyler Boe Garfield & Marks Oakley Vera Wang
Abboud Stuart Weitzman Bobbi Brown Trish McEvoy
Lily Pulitzer Gitman Bros. Hugo Boss Nicole Miller
Carmen Marc Valvo Spanx

SFAE Overview

Saks Fifth Avenue

**“THE MOST
INVITING LUXURY
SHOPPING
EXPERIENCE”**

- 61 luxury department stores in 23 states with 6.4 million square feet of premium real estate



SFAE Overview

Saks Fifth Avenue

- SFA is an *authority on "style"* and an emporium of world-class luxury brands, targeting consumers who wish to enjoy an *inviting luxury* shopping experience
- Loyal, affluent customer base, with over one million active cardholders, and 170,000 SaksFirst members



SFAE Key Strategic Initiatives

Executing to strategic positioning and improving ROIC through:

- Providing unique, differentiated luxury product with exceptional design and quality
- Delivering a customer-focused, inviting shopping experience
- Strengthening vendor partnerships by establishing long-term strategic plans encompassing sales, staffing, marketing, and capital spend
- Select strategic third-party partnerships and alliances
- Targeted marketing and enhanced CRM

SFA Merchandising Strategy

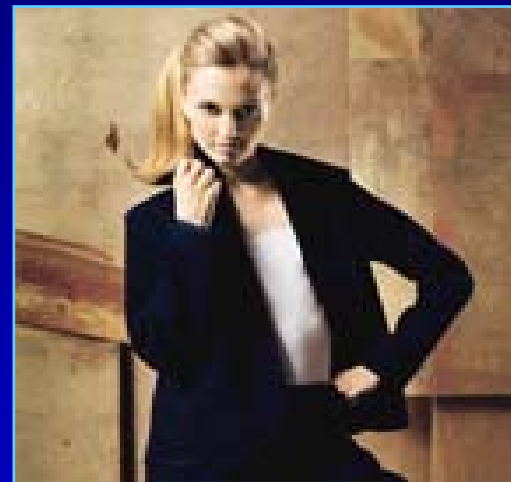
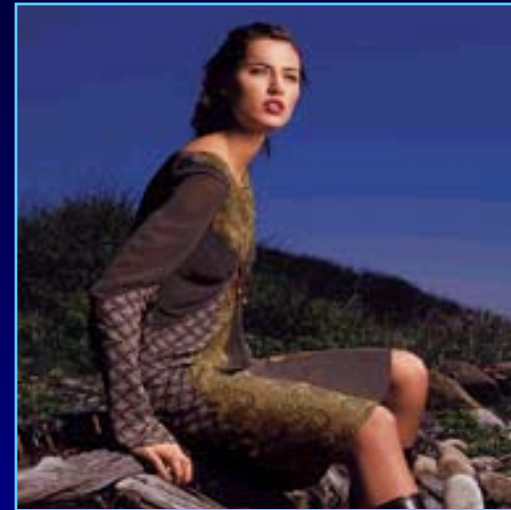
Unique, Differentiated Luxury Product

- Exploiting growth opportunities and/or building on dominance in key merchandise categories. These categories represented 28% of sales in 2001, growing to 30% in 2002, and include:
 - Contemporary women's apparel
 - Gold Range women's apparel
 - Shoes
 - Leather goods
 - Home/gifts
 - Fine jewelry
- Emerging vendors and exclusive product offerings

SFA Merchandising Strategy

Exploiting Growth Categories

- *Contemporary* women's apparel, attracting a newer, younger customer
- *Gold Range*
 - Meeting the demand for designer-level quality and sensibility at “near designer” price points
 - SFA is the headquarters of Gold Range in the U.S. and has doubled the size of the business in the last four years



SFA Merchandising Strategy

Exploiting Growth Categories

- *Shoes*, with assortments congruent with apparel offerings
- *Luxury leather goods*
 - Newly renovated first floor of flagship - to be completed in October 2002 - will offer the finest selection of luxury leather goods in the U.S.



SFA Merchandising Strategy

Exploiting Growth Categories

- *Home and gifts*
 - Lifestyle shop expansion in 7 key doors, including NYC
 - Roll-out of corporate gift program
 - Gift registry pilot in NYC



SFA Merchandising Strategy

Exploiting Growth Categories

■ Fine Jewelry

- One of the leading purveyors of fine jewelry in the U.S.
- Important designers include Cartier, Bulgari, Chopard, David Yurman, and Graff
- Newly renovated and expanded NYC space is one of the finest jewelry stores in the country



SFA Merchandising Strategy

Other Opportunities

- To create SFA *brand extensions*, such as the spring 2002 launch of Saks Fifth Avenue eyewear



SFA Merchandising

Developing numerous exclusive relationships with established designers, including:

- Jimmy Choo footwear - 12 doors fall 2002
- Penhaligon's fragrances and gifts - 6 doors fall 2002
- Helena Rubenstein cosmetics - 10 doors fall 2002
- Armani cosmetics - exclusive in Chicago, Beverly Hills, and San Francisco
- Cartier - currently in NYC; Las Vegas and Miami opening fall 2002

SFA Merchandising

Strategic Partnerships

- *Mercedes Benz* - co-branded Limited Edition Mercedes, plus "test drive" program
- *American Express* - rewards program
- *Ritz Carlton* - national hotel partner

SFA Marketing

New Campaign: Saks Fifth Avenue. Make It Your Own.

- Launched in September 2002
- Includes national magazines such as *Conde Nast Traveler*, *The New Yorker*, *Vanity Fair*, and *Vogue*
- Also includes outdoor, radio, newspaper, and select local magazines in major metropolitan markets
- Imagery is designed to reinforce “inviting luxury” and to demonstrate SFA’s style authority and position as an emporium of world-class luxury brands



A NIGHT ON THE TOWN CALLS FOR A DAY AT SAKS

SAKS
FIFTH
AVENUE

OLINA HERRERA

MAKE IT YOUR OWN

SAKS LETS ME PLAY DRESS UP WHENEVER I WANT.



SAKS
FIFTH
AVENUE

MAKE IT YOUR OWN

Y CHOO PETRUSSE KENNETH JAY LANE NATALIE BARONI



MY PSYCHIC SAID I SEE SAKS IN YOUR FUTURE.

SAKS
FIFTH
AVENUE

MAKE IT YOUR OWN

PAUL GAULTIER

SFA Marketing

*Enhanced Customer Relationship
Management programs designed to:*

- Identify new customers
- Re-engage lapsed customers
- Further engage current customers
- Maximize best customers through SaksFirst

SFA Service Strategy

An inviting, customer-focused shopping experience:

- *Outstanding service*, supported by:
 - Accommodating customer policies
 - Enhanced hiring and training modules
 - Extensive customer and associate Gallup surveys
 - Tailored commission programs
 - Innovative associate recognition programs

SFA Service Strategy

An inviting, customer-focused shopping experience:

■ *Physical environment*

- From 1998 through 2002, Saks invested approximately \$450 million of net capital in SFA store facilities
- 70% of that spending was in 12 “core market” stores, including NYC, Beverly Hills, San Francisco, Chicago, Boca Raton
- As a result, over half of SFA’s square footage is new or has been completely remodeled, reflecting the SFA “prototype” design

Saks Off 5th

Where customers can find Saks Fifth Avenue merchandise for a "gem of a deal"

- The premier luxury off-price retailer in the U.S., with 52 outlet stores in 23 states
- Only 6% cross-shopping between SFA and Off 5th
- An integral part of the Saks Fifth Avenue strategy with 25% of sales generated from SFA stores' merchandise, permitting efficient liquidation of SFA clearance goods
- Attractive economic returns due to high sales productivity and low operating and occupancy costs

Saks Incorporated

We have the:

- Organizational structure
- Management team
- Balance sheet
- Store base
- Operating discipline

To:

- Execute to our clearly-defined strategic positioning and
- To create value by substantially improving ROIC