March 2015

"Lifestyle About Your Passionate"

BHS
Contents

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- Further EBITDA Growth to 2017
- EBITDA Growth to 2017
- Overview
EBITDA movement - Impact of cost growth and sales margin decline as well.

However, positive LFL growth in 13/14 for the first time in 8 years. £135m in 10 years.

Major sales decline - dropped.
Market Trends

High Streets

• Significant growth of retail parks and high rates of vacant units on major streets

Migration trends changing ethnic makeup

• Continued demographic changes - rapidly aging population & increasing population of immigrants 2012 - 2020

Increasing influence of social media

• Growth of digital & multichannel

Aldi & Lidl

• Increasing number of value competitors - Primark, Supermarkets,

But there are still successes e.g. Next, Primark, John Lewis

Market is becoming increasingly competitive and discount driven
BHS Market Position (2013)
BHS Market Position (Future)
Our Customer

Target Customer

- Organised working mum
- Time pressed
- Shops for whole family
- Needs easy solutions to life's problems
- Stylish ideas made simple

Cafe 45
Home 45
Men 45
Pre-teens/teens 7-16
Buying for 45 years old
Modern Working Mums
Primary

Convenient
For 35+
(Concessions)
Convenient
For 60+

Approach to product offer
- Identified key changes to management team
- Involved directors & senior
- Ran from Jan-Jun 2012

20:20 Project Summary
“Digitally...”

loved by our teams globally; locally,
retailer, trusted by our customers and
our Outrageous Ambition...

By 2020

Up to

Our Vision

"Passionate about your lifestyle"

Our Vision...
EBITDA Growth to 2017
Warehouse capacity

Capital investment £0.8m required to increase digital

Retail LFL - 0.8% per annum, digital sales growth +1.5% per annum

e.g. Profile, Footwear, Lighting, Tammy

Continued improvement in core ranges and building on current success

Key opportunities are:

Year

% per year driven through product, making £2.3m profit each

LFL Sales Growth
own buy margin growth

1% own buy margin growth per year making £4.7m profit each

- Year
- This can be driven through:
  - Greater depth and reduced options leading to increased rates of sale and
  - Less fragmentation
  - Increase mix of duty-free business
  - Improving sourcing in key departments e.g. Childrenswear and Womenswear
  - Soft separates
  - Implementation success of current trading trials
FYE Impact Cost Savings

- £7.9m saving identified in 14/15 through:
  - Branch Payroll £1m
  - Head office payroll £4m
  - Marketing £1m
  - Shared Service Costs £1.9m

- £3m realised in 14/15, £4.9m benefit in 15/16

(£3.7m of £12.5m is Digital).
could be opened pre Christmas
18 stores planned, costed and ready to go and a further 12
Team required for rollout - 6 heads for 18 months (£350k)
Deal to be signed with Bookers, terms agreed in principle
Capex required from Bookers of £130k/store, total £8.2m
Capex contribution
Identified 63 stores over next 18 months, average
JV with Booker:
To date trailed 3 stores (Staines, Romford, Warrington)

Food Stores
Compass team ready to present proposal
Phased handover planned from May to August
(total capital investment request focus to be on food and mod stores)
Commitment to spend be paid monthly (130 stores)
Guaranteed minimum contribution of £3.1m / year to
Compass to manage all hospitality operations within

Outsourcing Hospitality

---[Speakers]--
Further EBITDA Growth to 2017
sales uplifts, £0.5m margin
Cost to move on to main site approx. £500K, potential £1.5m
old site
however due to cost and complexity furniture was left on the

Furniture Website

set up £100K, potential sales opportunity of £5m, margin £1.8m
systems investment requirement of £250k, team required for

suppliers
suppliers to trade on our website and direct fulfilment from

3rd Party Website Opportunities

system development planned for May 2015 to enable external
Team required to manage programme of 6 heads for 12 months (£250k)

- With focus on food retailer stores
- Potential to action a third of the chain pre Christmas and remaining post years
- Assuming 2% sales uplift to drive £4m cash contribution paying back in 2.5 years
- Spent on average £75k/store = £10m

Proposal:

- Performance
  - On average post investment sales uplift 4% ahead of chain
  - Visual Merchandising Treatment
  - Mannequins
  - Windows
  - Updated external & internal signage
  - Consisting of: Trailled in Birmingham & Nottingham (£invested £100k/store)

Low Cost Store Modernisations
• Trial 6 stores AW15, Rollout 2016
• Turnover, sales and profit
• Proposal for 50 stores at margin forecasts
• Children's accessories alongside childrenswear
• Opportunity for Claire's Accessories to trade

Claire's Accessories Concession
To be rolled out pre Christmas

Visual Merchandising treatments

Annual profit with a total capital cost of 

Margin

Trading 1000 mst per store on density on

Men'swear

Proposal to insert Burton into 30 stores to complement

Burton Inserts
Arcadia Inser"s  St"ffing Model
Opportunities to be Explored

- New Space - Retail Parks
- Instant Credit Online
- Small Stores
- Maximising Calendar Events

- Banks
- Post Office
- Beauty
- Other Concessions

- Direct Shipping
- Distribution Centre
- Logistics

International Division Ordering System (E400K capital investment required)
- New Markets
- International
Other Considerations

- Marketing
- Disruption in Stores
  - Payroll £60.7m
  - Capital £220m
  - Investment at £20.7m
Increased margin to deliver promotional activity on seasonal lines

- Pricing Review

    Reduced options = increased depth

    Supplier consolidation

    Increase mix of duty free business

Sourcing Initiatives

Margin Growth

- Multichannel sales growth, 11% mix, potential 16% mix
- Continued improvement in core ranges in line with our customers’ lifestyle
- Footwear £35m, 31% mix of non clothing, potential 35% mix
- Petites £9m, 9% mix of clothing, potential 12% mix
- Profiles £9m, 9% mix of clothing, potential 15% mix

LFL Sales Growth Opportunities

Womenswear
Margrin Growth

- Reduced options = increased depth
- Supplier consolidation
- Increase mix of duty free business

Sourcing Initiatives

- Kids: Multi-channel Growth, 10% mix, Potential 12% mix
  - School £13.8m, 17% mix of Kids
  - Family £14m, 12% mix of Kids, Potential 15% mix
- Mens: Multi-channel growth, 7% mix, Potential 12% mix
- Opportunity to build on the success of our Atlantic Bay brand and Growing Tract
  - Casual Shirts £17m, 20% mix of Mens, Potential 25% mix
  - Mens total £85m, 12% mix of total Merchandise, Potential 15% mix

LFL Sales Growth Opportunities

Mens & Kids
Furniture moving to main website for seamless shopping experience

- Web mix increase from 17% to 21%
- Personalised gifts: All year round opportunity
- Hampers: Fresh food, hampers, corporate business
- Bedding: Expanding offer to include new categories / brands
- Rugs & Curtains: Broadening customer choice
- Lighting: Improved spread to market and new product categories
- Flowers: New business for RHS

Third Party Web Opportunities

New Business

- Refocus offer, potentialising higher margin categories
- Rationalisation of supply base in order to focus and drive business with top 50 suppliers

Margin Growth

- Exceed expectations of new and existing customers
- Core business: Continue to push the boundaries on style, design and choice to exceed the

LFL Sales Growth Opportunities

Home & Gifts
Both are critical to future growth. Developed significantly.

Web platform & Warehouse has

BHS site on their mobile.

Over 25% of customers shop

25% of BHS multichannel sales.

Click & Collect now represents

BHS Digital - The Story So Far
International

- Click & Collect service proposition
- Furniture site disjoined from main site
- Expanding range, brands & categories via 3rd party direct dispatch
- Web & Mobile development
- Division & department growth & company mixes
- Online stock availability

There is still lots to go at, maximise and improve

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BHS Multichannel - What could it be?
Sterling Order Management System launching from June enabling drop ship direct from supplier.

BHS Multichannel - Making it Happen
BHS Multichannel - Making it Happen

- Improved navigation & search
- App due in August
- New product lister and product content integrated throughout
- Bundles for outfits/room sets
- Was/how product pricing/customer types
- Different versions to different ability to segment & present

Greater focus on Tablet and Mobile
TBCHouse

Warehouse system enhancements to system

September, 15th

Customers in relevant way communicating to Targeting and

June, 15th

Site improvements - view all switches & sofas

Need for August, 15th

Systems Development
Speed of supply
Space requirements
Online Range Review

Dispatch
International

In Progress

BHS Multichannel - Realising the Potential
Stock level and commitment level

Process improvement and better management controls to improve availability,

Processor arrangement

Business case to be produced to understand benefits of leasing a DC vs current availability

Improve stock turn, reinvest into top performing categories & improve 40% of digital stock options drive 5% of sales, highlighting the opportunity to additional savings

Other areas have been identified to improve efficiency of processors driving dockering direct to Atherstone opportunity to save c. £1m by increasing store labelled merchandise and cross 60% of total stock goes through a processor costing £6.1m

Logistics Opportunities
on track with high engagement: High performance culture
- Climate
- Staff turnover increased due to job security, vacancy and salary freeze and difficult
- However, since September all people plans, investment and recruitment on hold:
- Significant move forward towards a positive and commercially focused culture

Current Considerations

- Implement company-wide internal communications strategy
- Implement talent planning
- Improve leadership skills and capability
- Design and implement new organisation structure
- Change culture to - High performance: High engagement
- Working towards criteria and qualities of "Times top 100 best companies to work for"

Progress

- Organisational design not supporting business
- Key talent gaps in senior roles
- Poor performing business contributing to disengaged population

Background