By Appointment to Her Majesty The Queen
Outfitters and Suppliers of Household Goods House of Fraser (Stores) Ltd T/A House of Fraser London

HOUSE OF FRASER
SINCE 1849

House of Fraser

Investor Presentation

6 June 2018

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Preliminary FY17 results and update on current trading

Unaudited preliminary results for FY17 – P&L

As disclosed on 24th April 2018, detailed audited accounts are to follow post completion of the transaction

House of Fraser (UK & Ireland) Limited		Unaudited
£ millions	**28-Jan-17**	**27-Jan-18**
Gross transaction value	**1,310.5**	**1,233.6**
Turnover	**836.3**	**779.8**
Cost of sales	(353.2)	(334.2)
Gross Profit	**483.1**	**445.6**
Distribution costs	(359.9)	(375.1)
Administrative expenses	(94.7)	(84.3)
Other income	3.3	33.6
Operating profit	**31.8**	**19.8**
D&A (including impairments)	38.3	38.9
EBITDA	**70.1**	**58.7**
Exceptional items	(6.5)	(23.3)
Adjusted EBITDA	**63.6**	**35.4**

Commentary

- Results reflect the changing nature of the UK retail market including changing consumption and buying patterns. Examples include:
  - Increasing move towards ecommerce rather than buying in store
  - Increasing focus from consumers on promotional activity before making purchase decision
- Uncertainty around Brexit has acted as an accelerating factor, speeding up structural changes required to the retail market:
  - Market is currently too property heavy, with many of the properties under-invested
  - Economic centre of gravity of many towns has changed, with many retail properties no longer in the main areas of activity
- Our margin has also been impacted by Brexit related currency effects which have impacted input prices
- Further cost pressures due to national living wage, increases in business rates, rent increases and increases in utility prices
- Exceptional items includes £25m sale of house brands to Guangzhou Sunrise Trading Limited

Unaudited preliminary results for FY17 – cash flow

As disclosed on 24th April 2018, detailed audited accounts are to follow post completion of the transaction

House of Fraser (UK & Ireland) Limited		Unaudited
£ millions	**28-Jan-17**	**27-Jan-18**
Operating profit	**31.8**	**19.8**
D&A (including impairments)	38.3	38.9
Change in inventories	(11.9)	13.9
Change in receivables	(3.6)	(25.3)
Change in payables	(18.3)	(26.6)
Change in provisions	(16.5)	(7.4)
Operating cash flow	**19.8**	**13.3**
Net interest payments	(15.9)	(18.7)
Capital expenditure	(45.1)	(57.3)
Debt repayments	(11.3)	(2.8)
Net cash flow	**(52.5)**	**(65.5)**
Opening cash	**125.4**	**72.9**
Closing cash	**72.9**	**7.4**

Commentary

- Underlying movements in operating working capital moves in-line with underlying sales patterns of the group
  - Consistent trade payables days and trade receivables days over the last three years
- FY-17 increase in other receivables driven by £25m income recognised for brand sales in January (receipt of cash in March)
- Other working capital largely consistent with prior years, with limited fluctuations
- Capital expenditure of £57.3m in year to Jan-18 compared to £45.1m in year to Jan-17 driven partly by timing, with run-rate capex for the last two years of c.£50m
  - Higher than historical capex levels of c.£30m due to on going catch up store refurbishments and ecommerce and warehouse investments
- Lower debt repayments in FY17 reflective of the bond repurchase in FY16

Update on current trading
(Preliminary unaudited Q1 results)

Operational highlights for the 13 weeks to 28th April 2018

- Q1 Fiscal Year 2019 witnessed a difficult trading environment across the entire UK retail industry, driven by lower consumer confidence, channel shift online and unusually cold weather during February and March
- LFL sales decreased by 7.4% compared to prior year, while turnover decreased 7.7%
- Gross profit of £75.4m is £14.6m lower than Q1 Fiscal Year 2018
- Gross margin of 32.8% decreased by 350bps compared to margin of 36.3% last year
- In what is seasonally the lowest trading quarter, negative EBITDA for the quarter widened year on year to (£31.4m), driven primarily by the decline in total sales
- Net increase in cash for the quarter was £2.0m compared to a £62.5m decrease in cash in Q1 of Fiscal Year 2018
- As announced in the 2 May announcement, the group has received £25m support from shareholders to fund the business in the lead up to the transaction
- An additional £5m has been received following the announcement from shareholders (with a further £5m to be received in June) and the group has also agreed a £10m short term overdraft facility with its banks

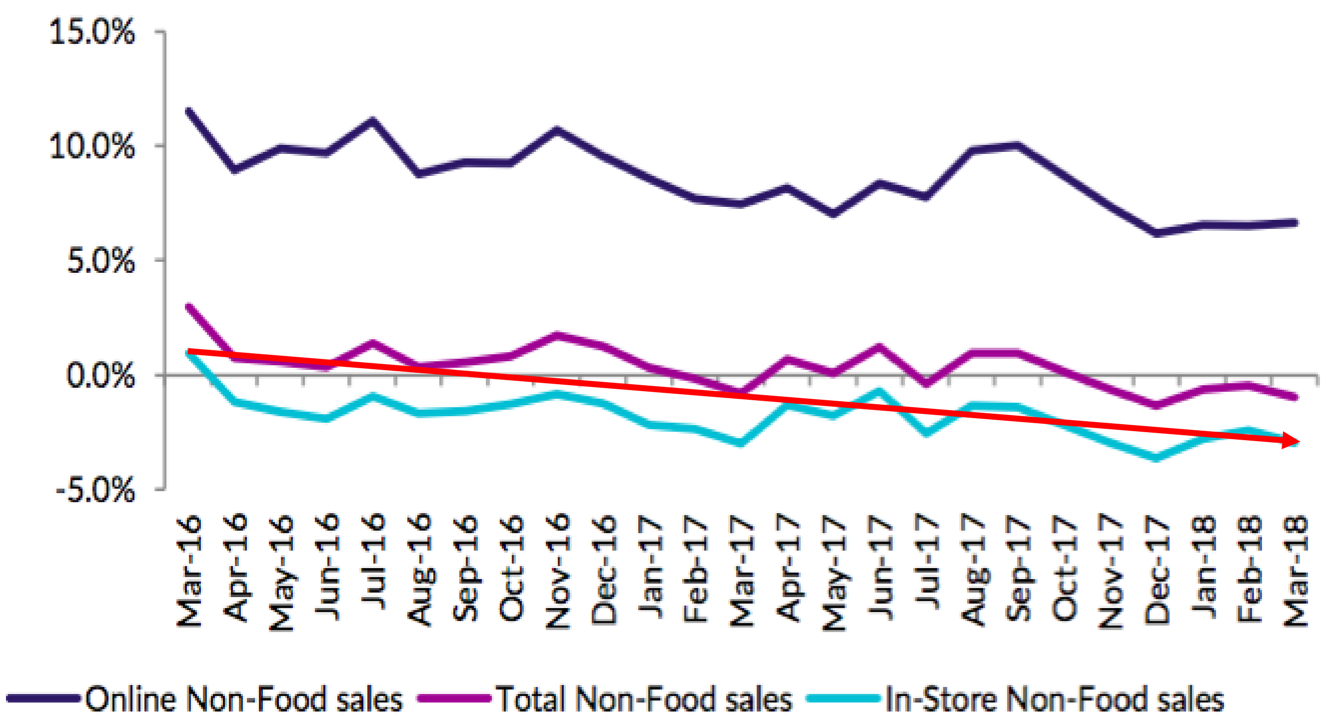
02

Background to Transformation Plan

2 ½ years of negative growth for retailers in UK physical stores

Traditional retailers have been hit by **declining physical store performance** and challenges of **adjusting to digital growth**

3M ROLLING AVERAGE GROWTH OF NON-FOOD SALES



Source: BRC-KPMG RSM

NON-FOOD ONLINE PENETRATION RATE ONLINE AS % OF TOTAL	
Mar 2018	22.0%
Mar 2017	20.6%
Feb 2018	21.1%
3m average	21.8%
12m average	22.6%

Online growth is most rapid in our key categories

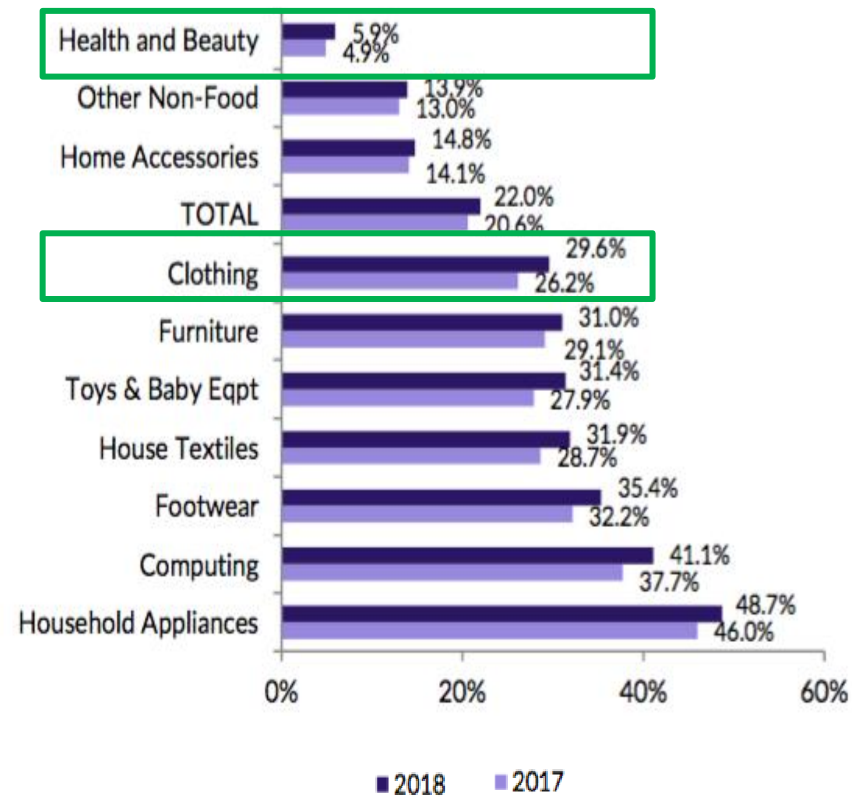
Growth will be driven by digital sales of **sweet-spot categories**. Digital penetration low enough **to justify physical stores.**

SECTOR PERFORMANCE: ONLINE SALES GROWTH

CATEGORY	SALES UP / DOWN MAR 2018	GROWTH RANKINGS				
		MAR 2018	FEB 2018	MAR 2017	3M AVG	12M AVG
Health & Beauty	▲	1	1	1	1	1
House Textiles	▲	2	8	10	7	8
Clothing	▲	3	3	6	2	5
Computing	▲	4	10	3	3	2
Furniture	▲	5	9	9	9	9
Toys & Baby Equipment	▲	6	5	5	5	3
Home Accessories	▲	7	4	7	6	7
Household Appliances	▲	8	7	8	10	10
Footwear	▲	9	6	4	8	6
Other Non-Food	▲	10	2	2	4	4

Source: BRC-KPMG RSM

ONLINE PENETRATION RANKINGS BY CATEGORY



Immediate short-term challenges have created significant stress on the business

A **perfect storm of circumstances** has seen top lines get squeezed and costs rise

Changing market

Falling footfall in stores, the rise and rise of pureplay and retailers over-feeding discounting has seen 'traditional' retail businesses come under extreme stress.

Consumer confidence

Brexit led a GDP reduction in 2017, a devaluation of the pound from pre-Brexit levels which in turn has driven inflation up beyond target levels and seen the BoE nudge interest rates up

Project execution

Moving our leading ecommerce business onto a new platform, changing the pricing of our house brands and reducing the number of womenswear private label brands hit sales hard

Leverage

Total credit facilities of £390m against run rate EBITDA and Q4-dominated cash cycles has placed stress on working capital in Q1 – Q3 2018

Planned action

1. Become the antidote to the issues of the high street
2. Target the market gaps in Luxury, Premium

1. Build a brand proposition based on our extraordinary DNA
2. Focus on being a fabulous retailer not a landlord

1. Build the right team at every level
2. Focus on a believable and flexible plan that moves at pace

1. Trade the business properly to maximise cash generation
2. De-lever HoF to allow transformation

03

Overview of the Transformation Plan

Overview of the Transformation Plan

1 Create a smaller, higher-quality and more focussed store estate

- Store rationalisation and cost reduction programme to compromise certain of the leasehold liabilities of the Group to be implemented via Company Voluntary Arrangements ("CVA") or otherwise, (the "Restructuring Plan")
- Reduced rent expense will reduce fixed costs, allowing for a more flexible cost base going forward – expected annual cost savings of greater than £20m
- Pro-forma for the transaction, House of Fraser's Gross Transaction Value would have been approximately 30% lower in year ending Jan-18 (resulting in a GTV mix of c.70% in-store and c.30% web sales)
    - Adjusted EBITDA as a percentage of GTV would have been two to three percentage points higher in the year ending Jan-18
    - Due to the smaller footprint, outflow for inventory pro-forma for the CVA would have been c.40% lower

2 Refocus towards concessions and own bought brands, driving a more premium in-store and online offering

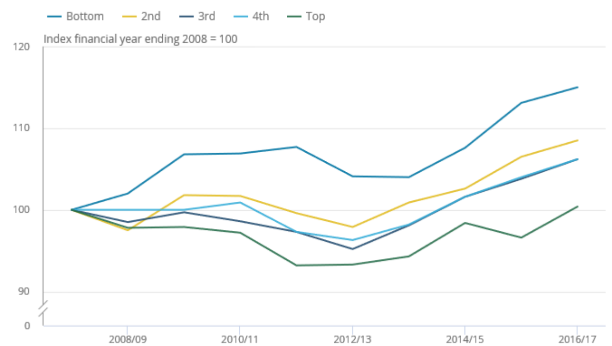
- Higher concentration of premium brands creates a positive feedback effect, as House of Fraser becomes "the house of brands"
- Received positive feedback from brand partners on plan

3 Become an eCommerce led retailer offering a seamless multi-channel proposition and integration between in-store and online customer experience

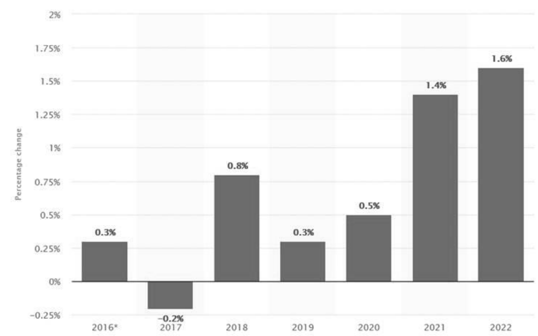
The market opportunity

Disposable income

UK disposable income by quintile



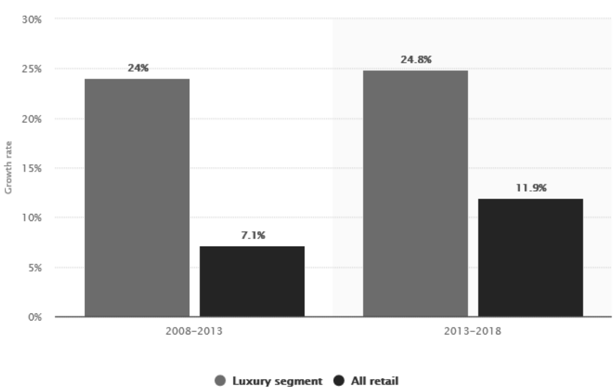
Forecast growth in disposable income



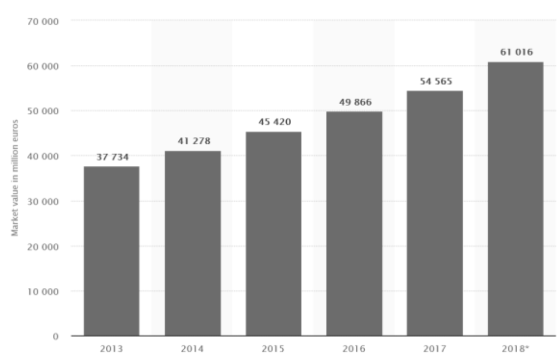
- UK Disposable income now exceeds pre-crisis levels
- Rate of growth has been highest for those with the highest disposable income
- Disposable income is forecast to continue growing

UK luxury market

UK luxury market growth rates



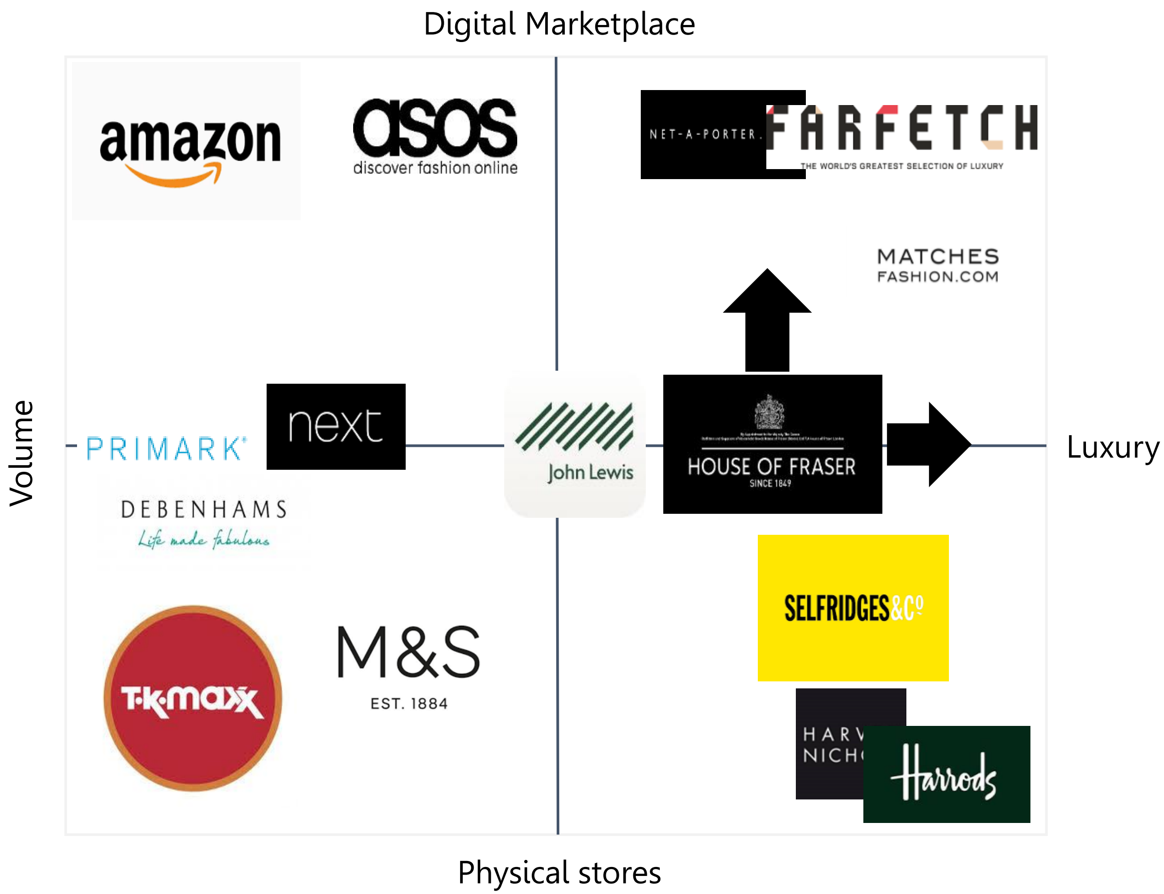
Forecast UK luxury market growth rates



- The total value of the UK luxury retail market has grown by >60% over the last 5 years
- The growth rate in the UK luxury market is significantly greater than the UK average

Balanced portfolio focused on premium and luxury multi-channel

The scale **multi-channel premium & luxury department** store group that becomes **eCommerce led over 3 years**



Luxury & Premium

Stores in affluent locations offering the finest brands in ever evolving and improving retail experience centres,

Stores in city & regional locations carrying accessible premium branded products coupled with outstanding services and partnerships

eCommerce

One exceptional online store with increasing levels of personalisation, market place credentials delivered seamlessly alongside in-store

E-Commerce Roadmap 2018-2020 gets us 'there' first

Invest in House of Fraser brand to regain 'Trademark' strength across ecommerce marketing channels

2018

Focus on **enhancing search and merchandising** capabilities of Hybris engine

Start journey to create a single customer view

Broaden product range to enhance our brand offering (all categories) and cover category gaps (e.g athleisure, home & technology)

Personalisation Phase 2 Tailor experience to customers

Develop loyalty schemes to offer comprehensive experience e.g

- Delivery subscriptions
- Store-Experience based rewards (makeovers/F&B offers)

Curate product recommendations to increase conversion and AOV

2019 and 2020

Drive **growth internationally** through translation and multi-currency functionality

Mirror navigation of non-retail experiences to drive **Gen 2.0 of experience**

Social proofing

- Expert recommendations
- Peer-to-peer recommendations in loyalty
- Enhance reviews and ratings

Use data and new technologies to deliver personal & relevant customer experiences across our multichannel estate creating:
'The world's most welcoming department store online and offline'

Stores that are clear in their role and held accountable

Multi-channel led physical stores **committed to their local customer** base and the **service they demand**

EXPERIENCE

- **EXPERIENCE**
  "I WANT TO ENJOY SHOPPING"
  - Well-trained, highly-engaged workforce
  - Innovative and exciting store designs
- **MANUFACTURER BOUTIQUE**
  "I WANT ACCESS TO THE NEWEST AND BEST PRODUCTS FROM THE BRANDS I TRUST"
  - Strong general brand recognition
  - Unique product offering
- **OMNICHANNEL SHOWROOM**
  "I WANT TO EXPERIENCE THE PRODUCTS FOR MYSELF AND GET ADVICE IF I NEED IT"
  - Dynamic environment to support in-store consumer trials
  - Commercial terms with manufacturers that can support showroom economics

SOCIAL ENGAGEMENT

- **SOCIAL INTERACTION**
  "TO ME, SHOPPING ALSO MEANS MEETING PEOPLE"
  - Well-trained, highly engaged workforce
  - Well-located stores that support social shopping occasions with communal spaces or events

AFTERCARE AND TRUST

- **SERVICE CENTER**
  "I WANT SUPPORT IF THE PRODUCT BREAKS"
  - Expert employees with access to spare parts and replacement products

Mitigating the E-Commerce impacts of store closures

The following is the list of activities that are planned to mitigate the potential for any downside impacts on E-Commerce performance through the store reduction activity:

- ✓ A significant increase in 'above the line' marketing spend to offset any potential loss of brand awareness and to drive growth.
- ✓ Geo bid adjustments and targeted messages across all paid channels to increase online presence and message relevance in store closure areas to offset any drop in brand awareness.
- ✓ Redirecting onsite equity to increase visibility and traffic
- ✓ Reinvestment and redirection to new brands
- ✓ Targeted spend and activity across all channels to support the introduction of new brands
- ✓ Redeployment of local bloggers to drive traffic solely online
- ✓ Customer targeting to change messages for customers in target geographies

Our product offer sees us with more newness than anyone else

We have more brands than any other business. We are the high street antidote to retailers looking for low risk high street footprints. We are and will be the house of brands.

Concessions

>50% of sales. Has significant potential as we become the most vibrant market place

Own-bought Branded

>35% of sales. Growing across most categories and a strength

House Brands

>10% of current sales – challenging performance and needs refocusing

Extraordinary support and will to win from Brands in all categories

04

Overview of the Transaction

Overview of the Transaction

1 New retail focussed majority owner

- C.banner (owner of Hamley's toy store) to become 51% shareholder of House of Fraser Group Limited (a parent company of House of Fraser UK & Ireland Limited)
- Opportunity to share best practice in buying, supply chain and customer engagement

2 Significant new investment in the group

- £70m new money to be available for the group to fund the Transformation Plan, working capital and general corporate purposes
- New money as well as anticipated cash flow benefit from CVA will fully fund the business over the Transformation Plan, with minimum available liquidity headroom of c.£40m across the plan
- The combination of the Transaction and the successful implementation of the Transformation Plan will help the group delever to refinanceable levels prior to maturity of the bonds

3 Constructive discussions are on-going to obtain required approvals from our banks and lock up from the requisite majority of bondholders for the Transaction

- This includes potential amendments to the maturity of the RCF and Term Loan as well as a re-profiled covenant package with our banks (including institutions holding £26m that did not participate in the latest extension)

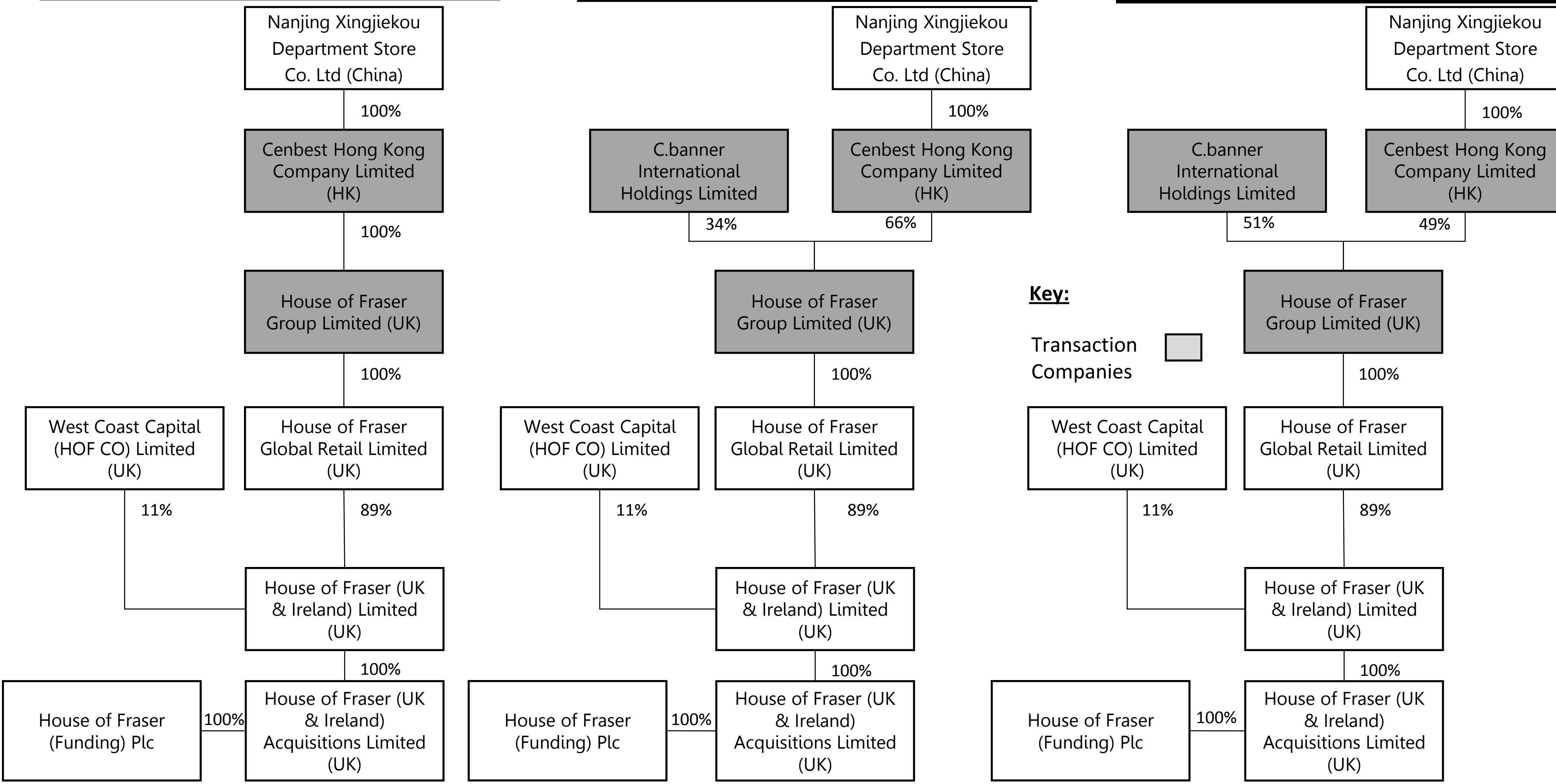
4 Completion of the Transaction is conditional on the successful implementation of the Restructuring Plan and other conditions

Overview of the Transaction

Pre transaction

Step 1 – share purchase

Step 2 – share subscription



House of Fraser

Forever discovering

HOUSE OF FRASER