



## DEBENHAMS Debenhams (LSE: DEB) Christmas Trading: Nonclothing Categories Drive Impressive Performance

- UK department store retailer Debenhams reported group comps of +0.5% at constant currency, surpassing the consensus estimate of (0.9)%, in the 18 weeks ended January 7, 2017.
- UK comps grew by 1.0% and online sales jumped by 13.9%—an acceleration from last year's +12.1%.
- Gross margin guidance for FY17 remains in the range of 25bps to (25)bps, as previously announced by Debenhams.

### Christmas Trading Update

Debenhams reported a robust performance that exceeded expectations over the Christmas period. Debenhams is one of several major UK retailers to report better-than-expected results; these include rival Marks & Spencer (see our separate [report](#) on that company's results).

For the 18 weeks ended January 7, 2017, Debenhams reported group comps of +0.5% at constant currency, beating the consensus of (0.9)%, against a strong performance of +3.5% from the corresponding period last year. Group comps were up a solid 3.5% as reported.

Total gross transaction value climbed by 3.7%. Debenhams highlighted that beauty and gift sales were strong and drove the period's nonclothing sales mix up to 57%, in line with the firm's operational strategy. UK comps grew by 1.0%, while its international arm, Magasin du Nord, saw a weak performance due to a "tougher trading environment."

Online sales jumped by 13.9% compared to last year's 12.1% rise. Debenhams emphasized improved momentum in multichannel sales growth, with shopping through smartphones up by 68% and customers increasingly using the retailer's premium delivery services.

In the core seven-week Christmas period ended January 7, 2017, comps increased by 1.7% at constant currency, and online sales surged by 17.0%. Group comps rose by an impressive 5.0%, as reported over this shorter period. Debenhams noted solid performance during the Black Friday event, with strong year-over-year growth in online and in-store sales.

As Debenhams continues to work toward reduced options in the clothing mix and lesser promotional activity, stock levels decreased by 7% year over year and full-price merchandise sales grew by 2%, Debenhams said. The retailer added that it has completed 75% of its store optimization program and has launched two new partnerships, with James Martin Kitchen and Franco Manca, during the period.

### Outlook

Debenhams confirmed its FY17 gross margin guidance to be in the range of 25bps to (25)bps, with a continued dilutive effect from its shift away from clothing in its sales mix. Analysts expect FY17 group GTV to grow by 0.5% to £2.85 billion and for EPS to fall by 6.7% to around 7 pence.



FLASH REPORT

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