



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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