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GETTING TO

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# THE HEART OF THE MATTER

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**BUILD-A-BEAR WORKSHOP, INC.**

October 29, 2014

## Forward looking and cautionary statements

This presentation contains certain statements that are, or may be considered to be, “forward-looking statements” for the purpose of federal securities laws, including, but not limited to, statements that reflect our current views with respect to future events and financial performance. We generally identify these statements by words or phrases such as “may,” “might,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “intend,” “predict,” “future,” “potential” or “continue,” the negative or any derivative of these terms and other comparable terminology. Forward-looking statements are based on current expectation and assumptions that are subject to risks and uncertainties which may cause results to differ materially from the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise. Risks and uncertainties to which our forward-looking statements are subject include: (1) general global economic conditions may continue to deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending; (2) customer traffic may decrease in the shopping malls where we are located, on which we depend to attract guests to our stores; (3) we may be unable to generate interest in and demand for our interactive retail experience, or to identify and respond to consumer preferences in a timely fashion; (4) our marketing and on-line initiatives may not be effective in generating sufficient levels of brand awareness and guest traffic; we may be unable to generate comparable store sales growth; (5) we may be unable to effectively operate or manage the overall portfolio of our company-owned stores; (6) we may be unable to renew or replace our store leases, or enter into leases for new stores on favorable terms or in favorable locations, or may violate the terms of our current leases; (7) the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation; (8) our products could become subject to recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers; (9) we are susceptible to disruption in our inventory flow due to our reliance on a few vendors; (10) high petroleum products prices could increase our inventory transportation costs and adversely affect our profitability; (11) we may not be able to operate our company-owned stores in the United Kingdom and Ireland profitably; (12) we may be unable to effectively manage our international franchises or laws relating to those franchises may change; (13) we may improperly obtain or be unable to adequately protect customer information in violation of privacy or security laws or customer expectations; (14) we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise; (15) we may suffer negative publicity or negative sales if the non-proprietary toy products we sell in our stores do not meet our quality or sales expectations; (16) we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team; (17) we may be unable to operate our company-owned distribution center efficiently or our third-party distribution center providers may perform poorly; (18) our market share could be adversely affected by a significant, or increased, number of competitors; (19) we may fail to renew, register or otherwise protect our trademarks or other intellectual property; (20) poor global economic conditions could have a material adverse effect on our liquidity and capital resources; (21) we may have disputes with, or be sued by, third parties for infringement or misappropriation of their proprietary rights; (22) fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline; and (23) we may be unable to repurchase shares of our common stock at the times or in the amounts we currently anticipate or the results of the share repurchase program may not be as beneficial as we currently anticipate. For additional information concerning factors that could cause actual results to materially differ from those projected herein, please refer to our most recent reports on Form 10-K, Form 10-Q and Form 8-K.



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**Building a**

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# **Better BIGGER Bear**

1. BBW has a strong BRAND
2. BBW has a strong PLAN
3. BBW has a strong FUTURE



# Company overview

- Specialty retailer offering make-your-own stuffed animals in an interactive store setting
- Founded 1997, IPO 2004
- Nearly 400 stores in 18 countries
  - 313 company-owned in US, Canada, UK and Ireland\*
  - 71 franchise stores in 15 countries
  - Oct 23rd expanded agreement in Germany will increase countries represented to 17
- Over 130,000,000 furry friends sold
- 6 consecutive years on Fortune's "100 Best Companies to Work For" list



## SNAPSHOT

2013 Total Revenues	\$379M
Market Cap	\$265M <sup>1</sup>

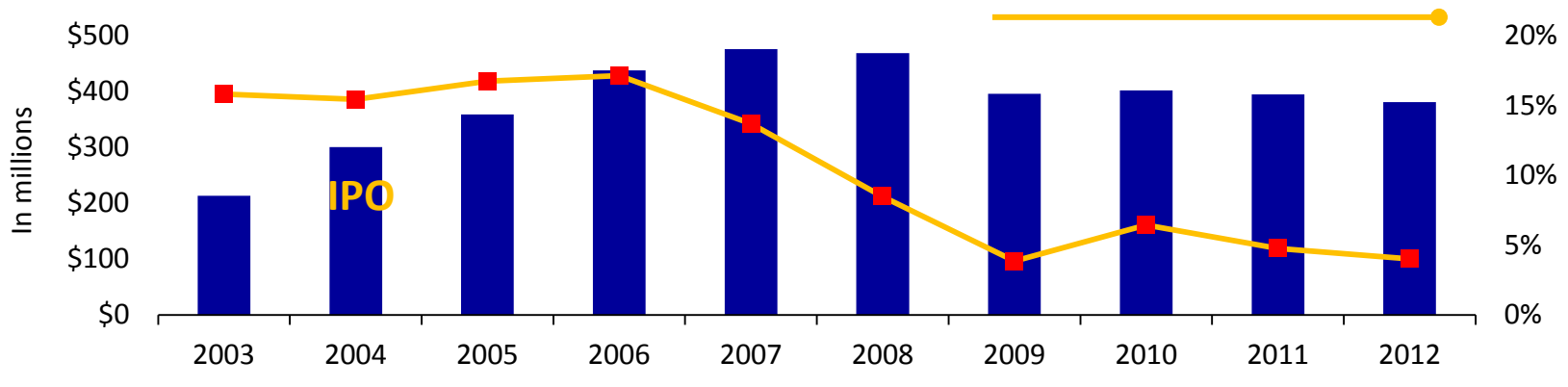
<sup>1</sup> Market cap as of 10/23/2014



\*Store counts are as September 27, 2014

# BBW Company snapshot

## BBW Total Revenues and Adjusted EBITDA



### 1997-2007: Era of Rapid Growth

- 1997-2003:  
Revenues grew to \$214M
- 2003-2007:  
Revenues grew to \$474M;  
CAGR of 22%
- Double digit EBITDA levels

### Post 2008

- Sales declined and then stabilized  
(\$381M in FY 2012)
- BBW was slow to react and adjust  
expenses to the “new economy”



# BBW business history

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Building a

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# Better BIGGER Bear

1. BBW has a strong BRAND



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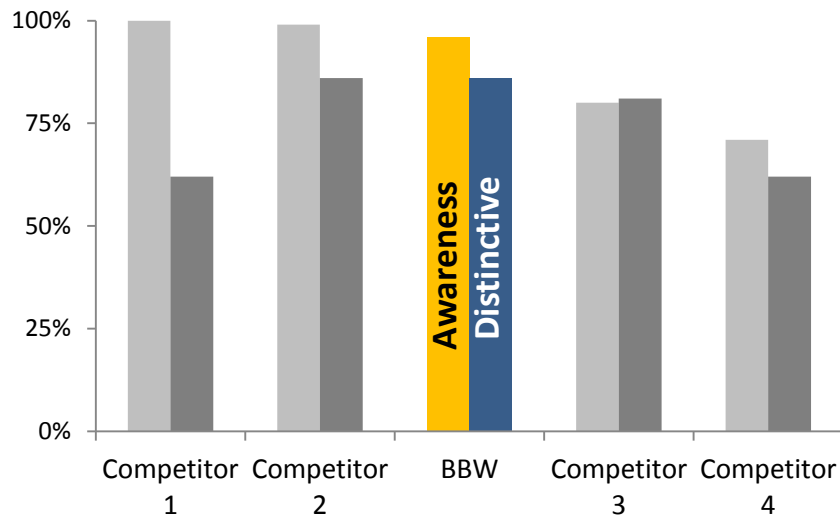
# The earmarks of a strong BRAND

- Recognizable
- Emotional
- Trusted
- Loyal consumer base



# High recognition; emotional connection

**Brand Recognition\***  
**% Agree Brand is**  
**Distinctive and Unique\*\***



Competitors include American Girl,  
Disney Store, Justice, Toys “R” Us

**Key emotional brand perceptions**

With Moms...Statement	% Agree
A really <b>FUN EXPERIENCE</b> for a child	85%
A child will have <b>SPECIAL MEMORIES</b>	78
Makes your child <b>HAPPY</b>	77
Makes you <b>HAPPY</b>	63
One of the <b>BEST EXPERIENCES</b> you can share with a child	63



\*Brand recognition is aided awareness; Source: C&R Research, Fall 2012

\*\*% Agreeing brand is distinctive and unique of those aware

## Brand power



# Loved by kids...

## Build-A-Bear...

% Agree

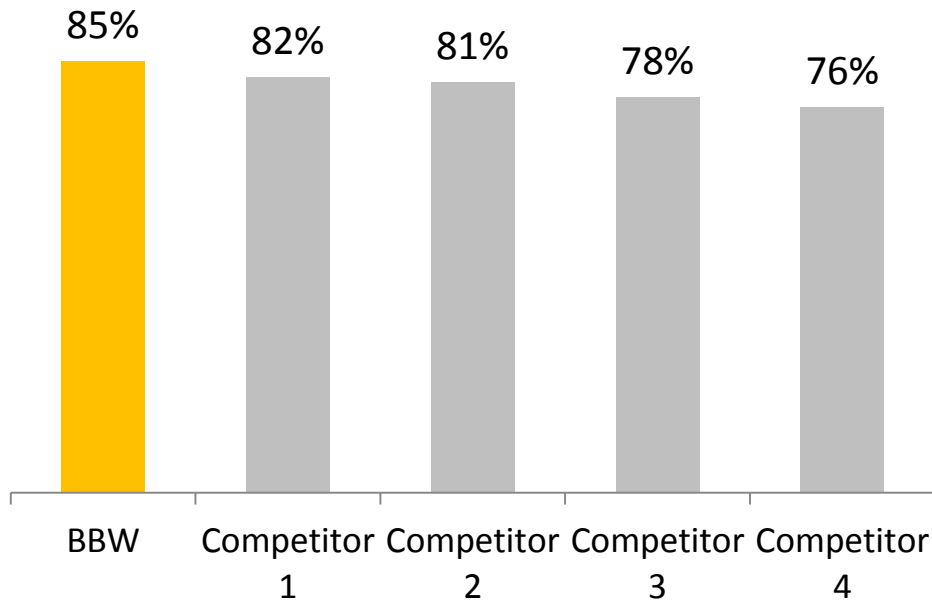
Lets me be <b>CREATIVE</b>	85%
Is about making my own <b>CHOICES</b>	84
Is <b>INTERACTIVE</b>	81
Is <b>FUN</b>	81
Makes me <b>HAPPY</b>	76
Stuffed animals from BAB are <b>MORE SPECIAL</b> than stuffed animals from anywhere else	74



Source: C&R Research, Fall 2012

# Brand power

# Loyal brand advocates



Competitors include American Girl,  
Disney Store, Lego, Toys "R" Us

— OVER —  
**4.4 MILLION**  
ACTIVE LOYALTY  
PROGRAM MEMBERS

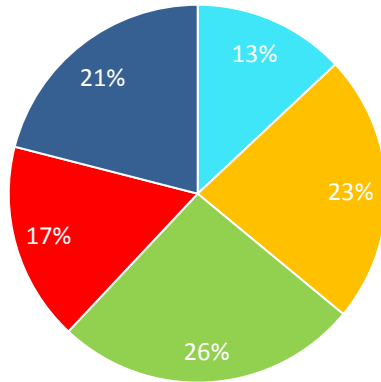


*Loyalty is measured using a proprietary index developed by Burke, Inc., a premier international research and consulting firm, incorporating ratings of Earned Loyalty, Likelihood to Recommend, Likelihood to Repurchase, Overall Satisfaction and Preferred Company*  
Source: Burke, Inc., 2013

## Brand power

# Plus...Broad demographic appeal

## Boys and Girls of all ages



Ages:

0-2 3-5 6-8 9-12 Teen +

68% GIRLS

32% BOYS



## Highly Desirable Demographics

- Strong family appeal
- College Educated
- \$50,000+ Household Income
- 25-45 Head of Household

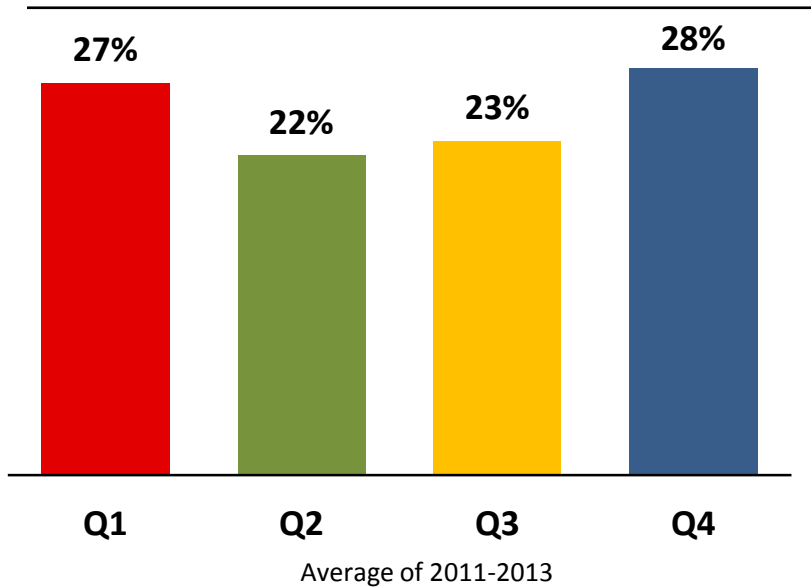


# Brand power

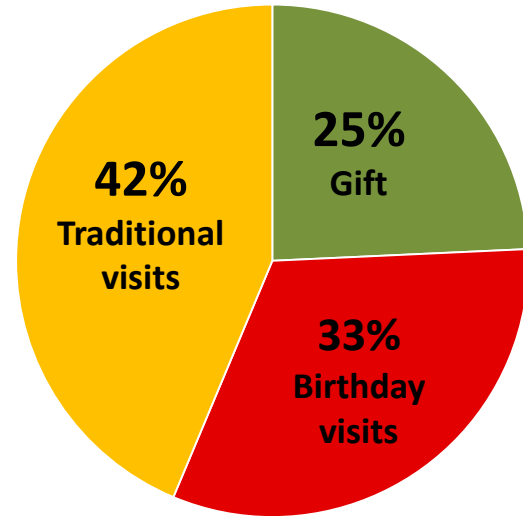
Source: BBW Guest registration database, BBW research

# Balanced sales, multiple purchase drivers

**BABW Retail Sales by Quarter**



**"Reasons for Visit"**



Source: BBW Guest registration database

- Over 90% of our gift cards are redeemed
- On average, a gift card transaction drives a 60% premium on face value



## Brand power

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**Building a**

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# **Better BIGGER Bear**

1. BBW has a strong BRAND
2. BBW has a strong PLAN



# Plan set in motion in 2<sup>nd</sup> Half 2012

## Building on core competencies...



Research validated the value of:

- **Our core retail concept**
  - Engaging process
  - Customizable product offering
- **Our high touch service model**
  - Experiential and interactive
  - Personalized and emotional



Source: Envirosell, a leading consumer behavior research and consulting firm, in 2011

## Strong plan

# Focused on three KEY areas

1

**OPTIMIZE**  
real estate

Restructure NA store portfolio

Refresh select stores

2

**RESET** consumer  
value equation

Reduce reliance on discounts

Refocus on brand building marketing

3

**RATIONALIZE**  
expenses

Reduce expense structure

Regain retail gross margin

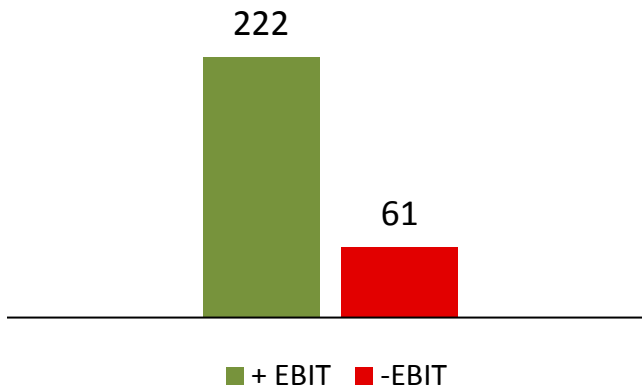


## Strong plan

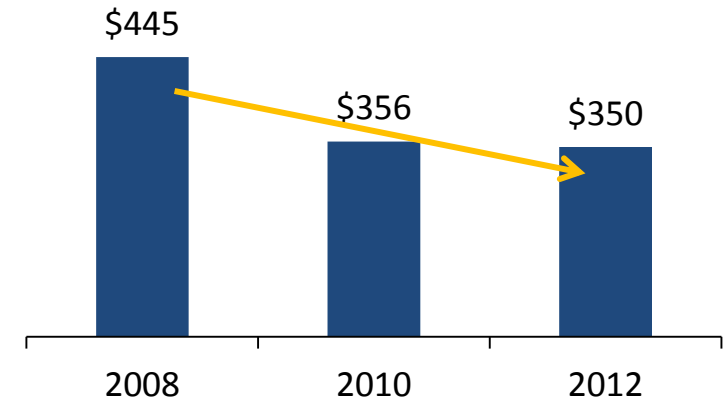
# 2012 Situation:

- 22% of NA stores were unprofitable
- Sales productivity was declining

**2012 NA Traditional Store Count**



**NA Sales per Square Foot**



## Action: Restructure NA store portfolio

- Close select stores
  - Priority on unprofitable locations and in multi-store markets
- Transfer sales from closed stores
- Renegotiate rent structures

## Action: Refresh stores

- Selectively downsize square footage
- Refresh store design in key locations in major markets



**Strong plan**

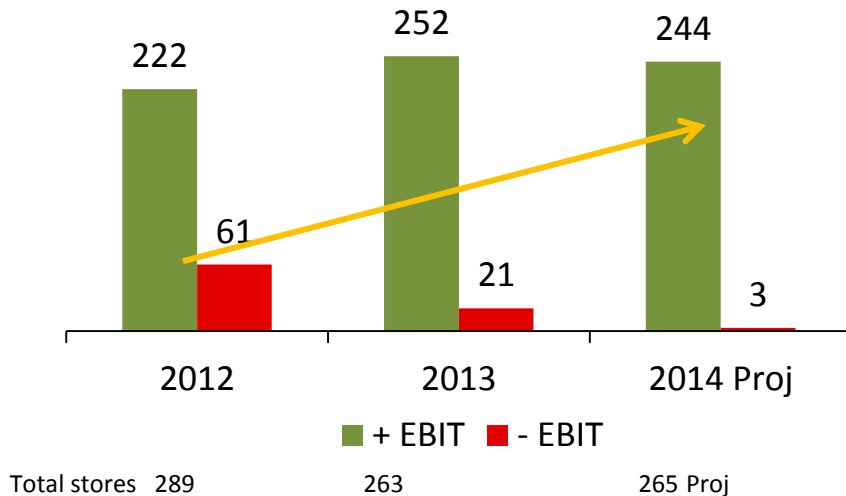


# 2013 RESULTS

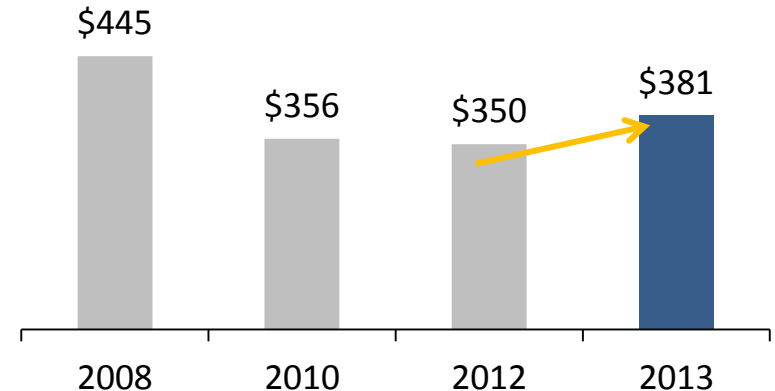
## Reversed the decline:

- Over **90%** of North American stores have positive EBIT
- Sales per square foot **+9%** vs FY 2012

NA Profitable traditional store count



NA Sales per square foot



2014 Proj is FY projected result

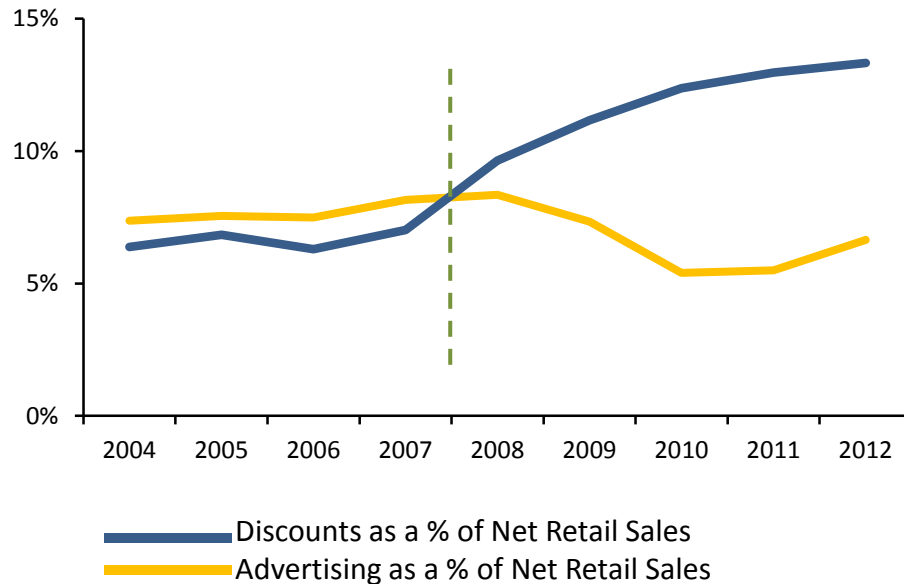
## Strong plan

**RESET**  
consumer value  
equation

# 2012 SITUATION:

- Rising discounts
- Less focus on brand building

**North American Discounts and Advertising as  
a % of Net Retail Sales**



## Action: Reduce reliance on discounts

Reduce discount and price promotions focusing on key strategic purposes to:

- Drive trial
- Increase retention of best Guests in loyalty program



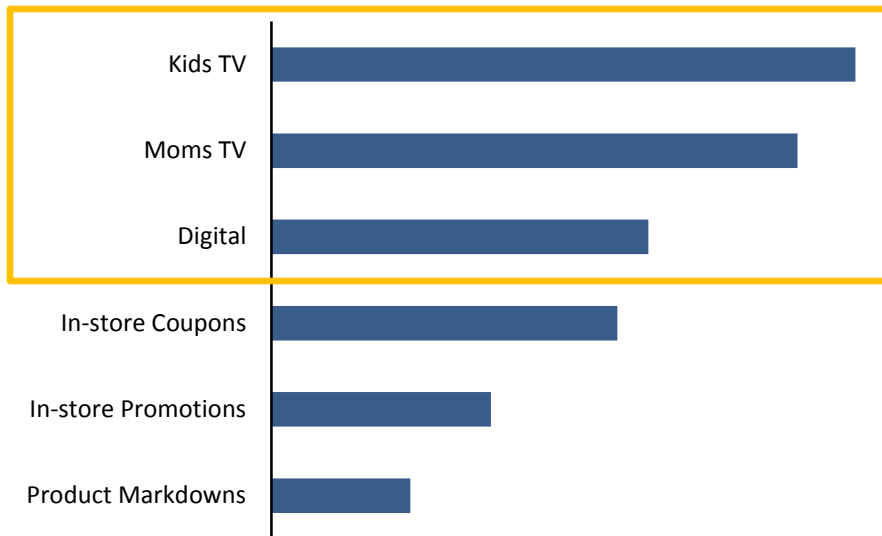
# Strong plan

**RESET**  
consumer value  
equation

# 2012 SITUATION:

- Rising discounts
- Less focus on brand building

## Net Sales ROIs In Cascading Order of Priority



Marketing optimization models showed that the brand building initiatives yielded a higher ROI in driving revenue.

## Action: Refocus on brand building

Elevate and integrate Marketing

Reallocate Marketing spend to focus on highest Net Sales ROI activities including

- Kids and Moms brand and product TV advertising
- Digital



Source: Analytic Partners, 2011 and 2012

# Strong plan

**RESET**  
consumer value  
equation

# 2013 RESULTS

- **North America discounts reduction versus prior year**
- **North America comparable store sales increase**

**-30%**

discounts vs  
prior year

**+5.7%**

North America  
comparable store  
sales

**70%**

of comparable store sales improvement from  
organic growth in the base business vs real estate optimization



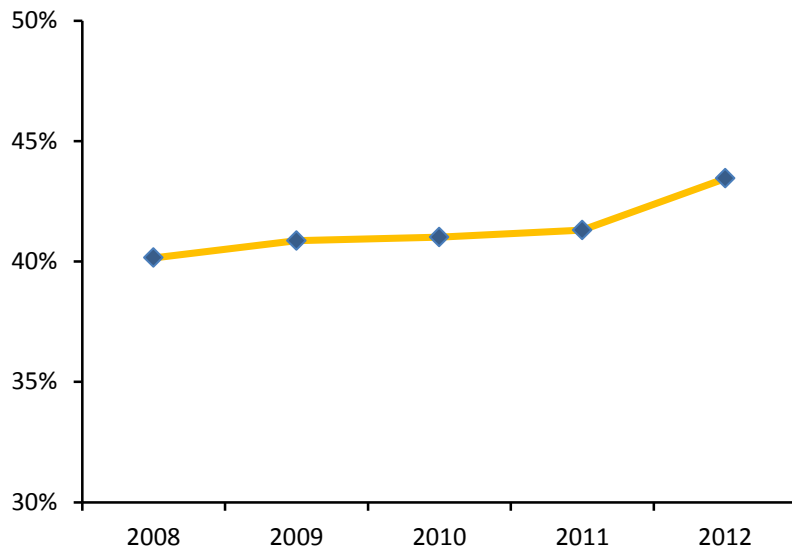
**Strong plan**

**RATIONALIZE**  
expenses

# 2012 SITUATION:

SG&A up with flat to declining sales

**SG&A as a % of Total Revenues**



## Action: Reduce expense structure

- Renegotiate most significant third party agreements
- Adjust store labor models to match overall traffic patterns
- Recalibrate expenses to lower store count

## Action: Regain retail gross margin

- Strategically modify product pricing with selective price increases
- Value engineer product design
- End to end review of supply chain to improve efficiency throughout the cycle

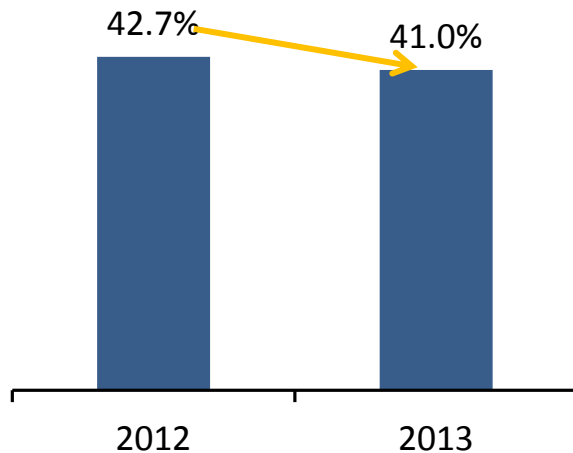


**Strong plan**

# 2013 RESULTS

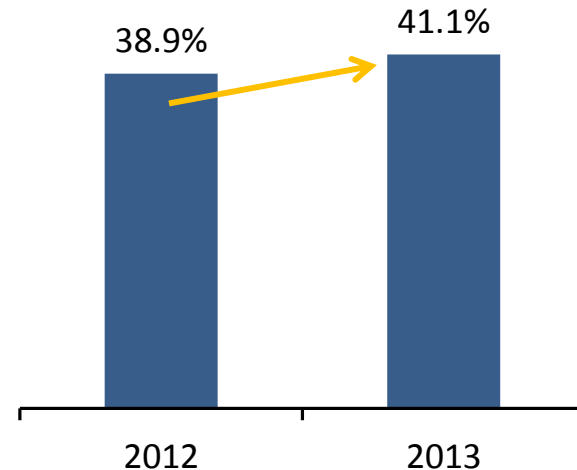
- **170 bps** improvement in SG&A as a % of Total Revenues
- **220 bps** expansion in Retail Gross Margin

**SG&A as a % of Total Revenues**



Adjusted to exclude management transition costs,  
store closing costs and asset impairment

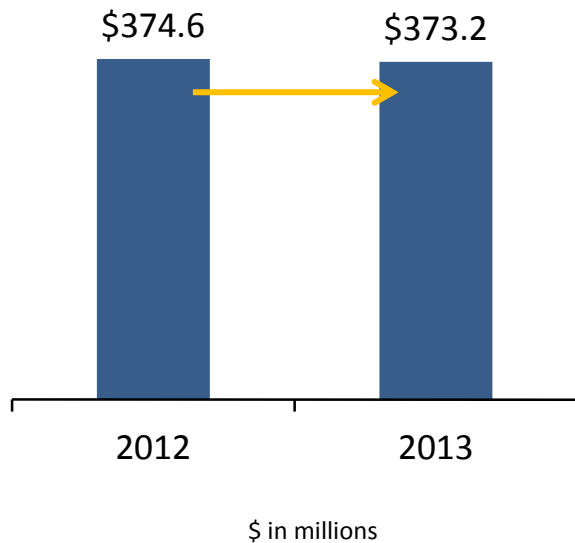
**Retail Gross Margin as a % of Net  
Retail Sales**



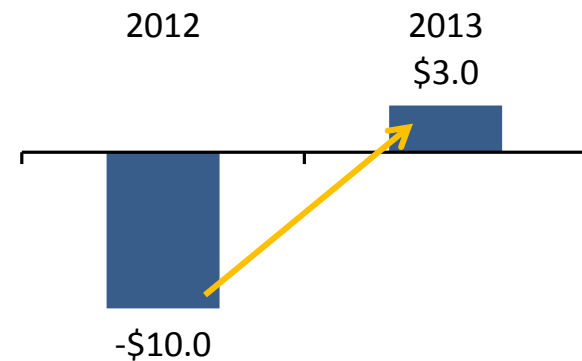
**Strong plan**

# 2013 RESULTS

Consolidated Net Retail  
Sales **-0.3%** with **28**  
fewer stores



**\$13M** Improvement in  
Adjusted Net Income



Excluding management transition costs, store closing costs, asset and store impairment, goodwill impairment and deferred tax asset valuation allowance; \$ in millions



**Strong plan**

# Focused on three KEY areas

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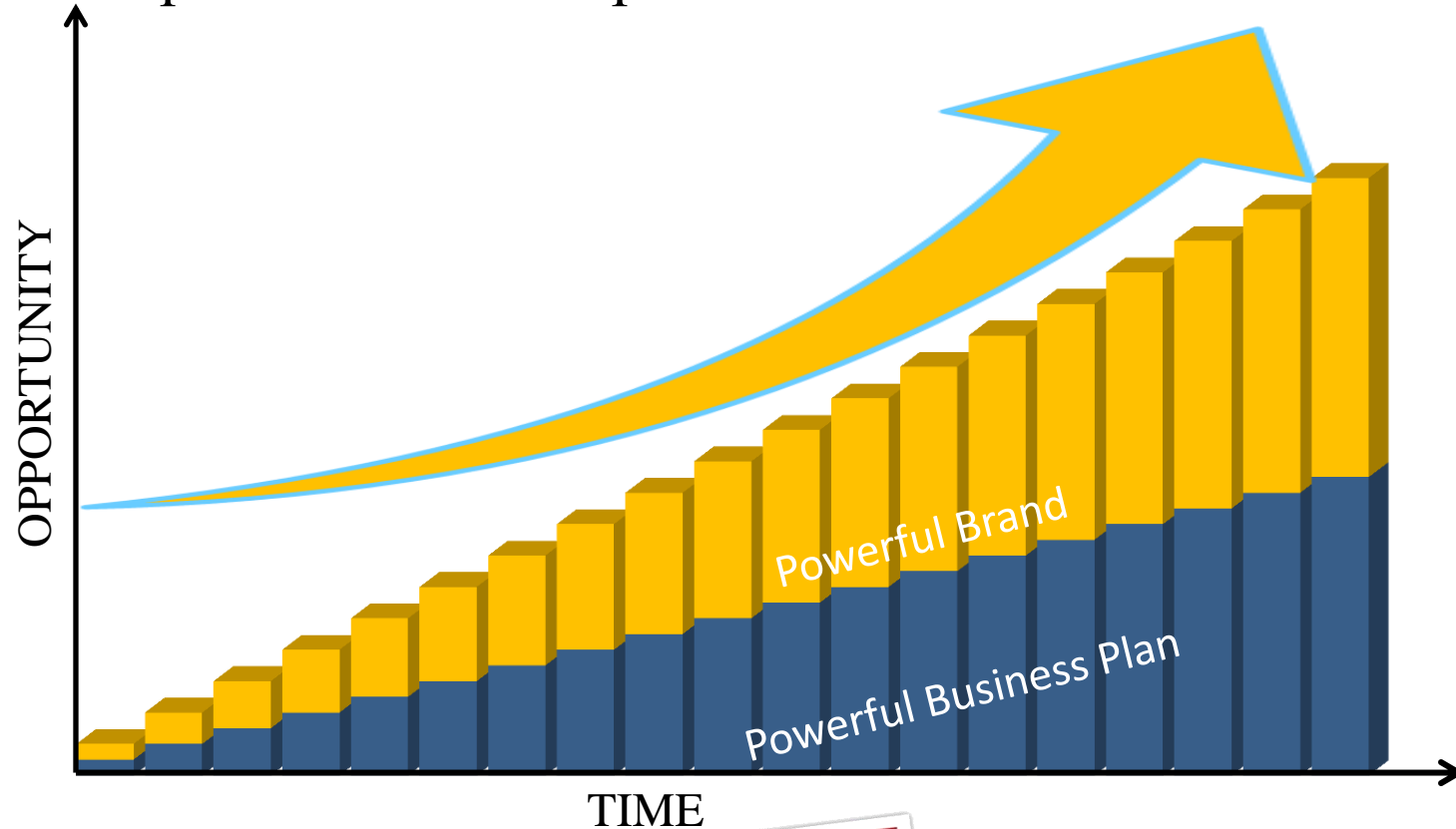


## Strong plan



# a **STRONG** future

Opportunity to **MONETIZE** brand equity to reach more consumers, in more places with more products over time...



**Strong future**

## Reach MORE PEOPLE

### Actively engage broader consumer base

- Over 14/Under 3
- Giftables/"Rites of Passage"

## In MORE PLACES

### Expand retail experience and presence

- Expand non-traditional opportunities: Shop-in-shops, Omni-channel
- Expand internationally with new global franchises

## With MORE PRODUCTS

### Extend into new brand-elevating products and categories

- Create strategic out-licensing program to leverage BBW brand equity
- Provide relevant, additive plush for select wholesale partners

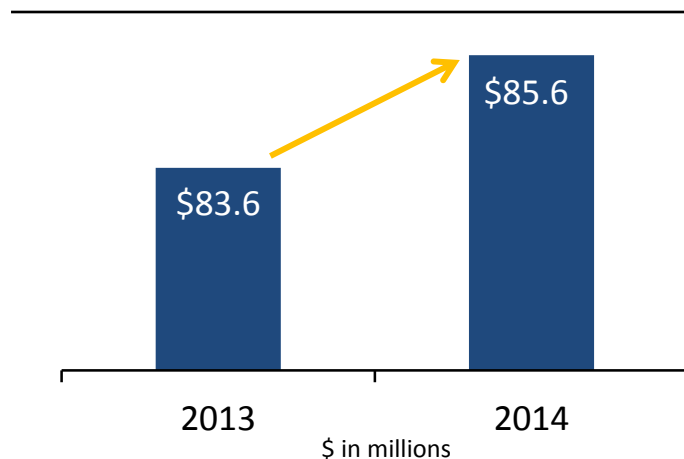


**Strong future**

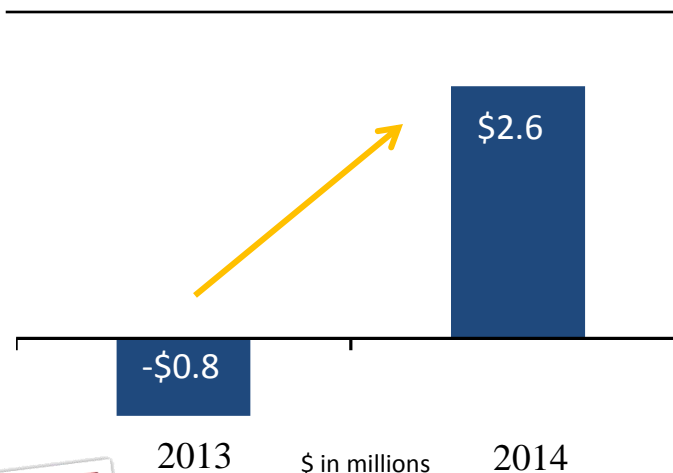
# Q3 2014 Results

- **\$2.0M** increase in consolidated Net Retail Sales with 7 fewer stores
- **320 bps** expansion in Retail Gross Margin
- **\$3.4M** improvement in Adjusted Net Income
- **\$0.15** Adjusted Net Income per Diluted Share vs adjusted net loss of \$0.05 per share in Q3 2013

**Consolidated Net Retail Sales**



**Adjusted Net Income\***



\*Excluding management transition and store closing expenses

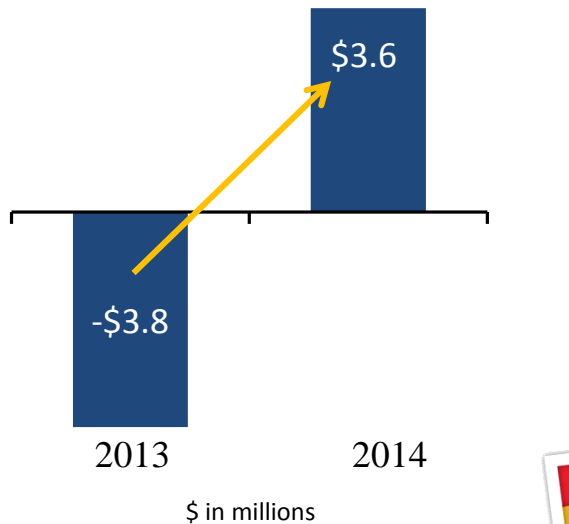
**Strong plan**

# YTD 2014 Results

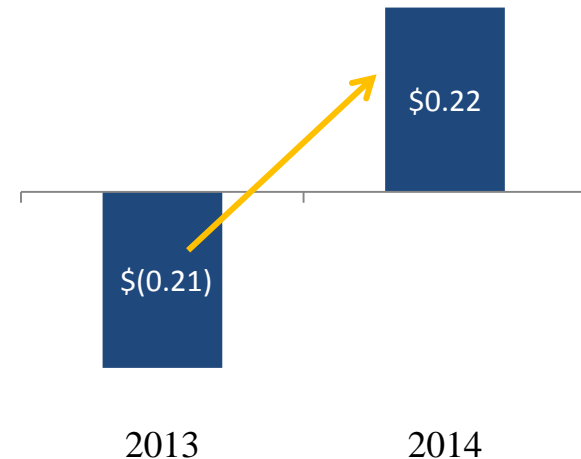
## 7th Consecutive Quarter of Improved Operating performance

- **\$7.4M** improvement in Adjusted Net Income
- **\$0.21** Adjusted Net Income per Diluted Share vs. adjusted net loss of \$0.23 per share YTD in 2013
- **270 bps** expansion in Retail Gross Margin
- **\$257.8M** Consolidated Net Retail Sales

**Adjusted Net Income\***



**Adj. Net Income per Diluted Share\***



\*Excluding management transition and store closing expenses

# Strong plan

# New Developments

## Expanded partnership with Macy's

- 5 shop within select Macy's stores
- BBW showcased in Macy's Santaland® in two of the locations
- Return of BBW float in Macy's Thanksgiving Day Parade®



The only retailer to have a float in the Macy's Thanksgiving Day Parade



Holiday pop up store in Times Square

- Times Square pop up store in New York City
- International expansion
  - Added Turkey as a country, first store opened in June
  - New franchise agreement in Germany, adds Austria and Switzerland



## Strong future

# New Developments

**Added Senior Leadership talent to assist BBW in achieving long range goals:**

- Voin Todorovic as Chief Financial Officer
- Gina Collins as Chief Marketing and Brand Officer,
- Jennifer Kretchmar as Chief Product and Innovations Officer



**Strong future**

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**Building a**

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# **Better BIGGER Bear**

1. BBW has a strong BRAND
2. BBW has a strong PLAN
3. BBW has a strong FUTURE



**MORE**

**strong BRAND**  
**strong PLAN**  
**strong FUTURE**







BUILD-A-BEAR  
WORKSHOP®

