



**Sharon Price John**  
**President & CEO**

# 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 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; (5) the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation; (6) we may suffer disruptions, failures or security breaches of our information technology infrastructure or may improperly obtain or be unable to adequately protect customer information in violation of privacy or security laws or customer expectations; (7) we may be unable to generate comparable sales growth; (8) we may be unable to effectively operate or manage the overall portfolio of our company-owned stores; (9) 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; (10) we may not be able to operate our international Company-owned stores profitably; (11) we are subject to risks associated with technology and digital operations; (12) our products or Build-A-Bear branded products sold by our licensees could fail to meet current safety standards or become subject to recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers; (13) we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team; (14) we are susceptible to disruption in our inventory flow due to our reliance on a few vendors; (15) we may fail to renew, register or otherwise protect our trademarks or other intellectual property; (16) we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise; (17) we may be unable to operate our Company-owned distribution center efficiently or our third-party distribution center providers may perform poorly; (18) increases in high petroleum products prices could increase our inventory transportation costs and adversely affect our profitability; (19) we may be unable to effectively manage our international franchises or laws relating to those franchises may change; (20) our plans to leverage the Build-A-Bear brand to drive strategic expansion may not be successful; (21) our market share could be adversely affected by a significant, or increased, number of competitors; (22) we may suffer negative publicity or negative sales if the non-proprietary toy products we sell in our stores do not meet our safety, quality or sales expectations; (23) poor global economic conditions could have a material adverse effect on our liquidity and capital resources; (24) fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline; and (25) fluctuations in our operating results could reduce our cash flow and we may be unable to repurchase shares at all or at the times or in the amounts we desire or the results of the share repurchase program may not be as beneficial as we would like. 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.





# About BBW

- **20 YEARS YOUNG:** Established in 1997 as an experiential retailer offering make-your-own stuffed animals; IPO in 2004
- **GLOBAL:** Over 400 retail locations around the world through a combination of direct and franchise operations generating over \$350MM in annual revenue
- **VALUED CULTURE:** 9 consecutive years on Fortune's "100 Best Companies to Work For" list
- **STRONG BRAND:** Posting awareness and loyalty numbers rivaling brands many times our size
- **EVOLVING:** Completed turnaround plan that was initiated in mid-2013 which included laying the groundwork for diversifying the business model to profitably leverage the strength of the Build-A-Bear brand

# Brand



# Business

# Brand

**90%+ Aided  
Brand  
Awareness\***

**Powerful  
Social &  
Loyalty  
Engagement**



**Broad Consumer  
Appeal:  
Gender, Age and  
Geography**

**170 Million  
Furry Friends  
Sold Globally\*\***



# Business 2012

- 2012 GAAP Pre-Tax Loss of ~\$50MM
- 4 consecutive years of GAAP Pre-Tax Losses (2009 -2012)



# Business 2013-2017

## Returned to Profitability & Sustained Profitability



- Diversified real estate portfolio; closed select stores
- Reduced discounts, enhanced marketing to leverage the brand emotion and highlight the in-store EXPERIENCE
- Refreshed brand look and store design focused on productivity
- Rationalized expenses, renegotiated contracts
- Value-engineered product line and strategically increased pricing to expand gross margin and dollars per transaction



# Business 2013-2017+

*while simultaneously*

## Rebuilding Systems and Processes

&

## Updating Org Structure



- Re-organized with new management team and upgraded talent; Board of Directors evolution
- Instituted new, more efficient processes
- Updating IT infrastructure & digital capabilities; added new systems including new website and omni-channel platforms
- Re-building international infrastructure
- Restructured vendor base and supply chain





From 2012 to 2016  
traditional mall traffic declined close to

**40%\***

while e-commerce sales

**DOUBLED**

as a percent of total retail\*\*



Over **12,000** retail  
door closures in 2016 with  
scores of retail bankruptcies  
and projections of an additional  
**9,000**  
retail door closures in 2017\*

# Despite Reported TOTAL Retail Industry 4Q 2017 Sales Increases, Recent Headlines Include...



**America's 'Retail Apocalypse' Is Really Just Beginning**

- Bloomberg

**“The 4 Reasons Why 2017 is the Tipping Point for Retail”**

- The Atlantic

**“Retailers Face 2017 Reckoning”**

- Investors.com

**“The Retail Apocalypse”**

- FOX Business

**Holiday shopping 2017:  
The truth about the  
"retail apocalypse"**

-USA Today



## **A RETAIL APOCALYPSE ? OR AN ERA OF RAPID CHANGE?**

# “The Economist” recently noted these next steps for Brick & Mortar to “Fight Back”\*...



- ☒ Make store associates core to store experience
- ☒ Use customer insights to drive profit not just promotions
- ☒ Take a surgical approach to store closures and remodels
- ☒ Refresh brand to appear more contemporary
- ☒ Offer space for in-store demos and events
- ☒ Sublet in-store space to other retailers
- ☒ Introduce price matching by default
- ☒ Merge on-line and off-line channels
- ☒ Redesign display windows and storefront
- ☒ Move to secondary locations
- ☒ Shift focus to higher-value customers
- ☒ Augment in-store assortment with on-line catalogue
- ☒ Introduce bespoke/customizable products



# Who Thrives in the Long Run?

## COMPANIES THAT HAVE:

- Meaningful, stretchable brands
- Unique in-store experiences and product offerings
- Omni-channel capabilities
- A diversified business model
- Efficient and nimble operations
- Direct, data-driven relationships with their consumers





# Business Now



4

CONSECUTIVE YEARS  
OF PROFITABILITY

2014-2017 GAAP Pre-Tax



~95%

Profitable US Stores



compared to 78% at the start of the turnaround in 2013

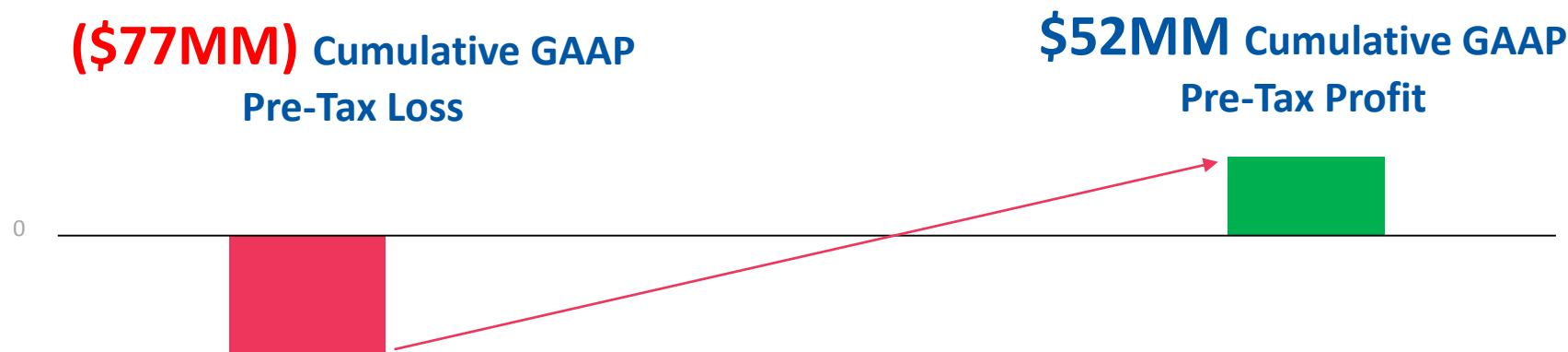
# BBW is Now a Stronger Company Delivering Sustained Profitability



**Pre-Turnaround:**  
4 consecutive years of Pre-Tax Losses



**Post Turnaround:**  
4 consecutive years of Pre-Tax Profits

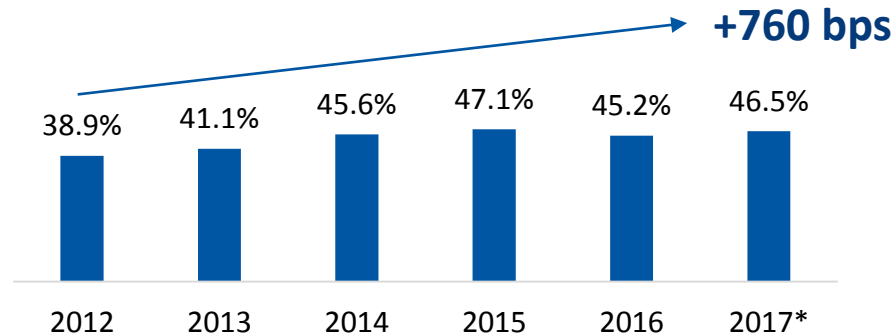




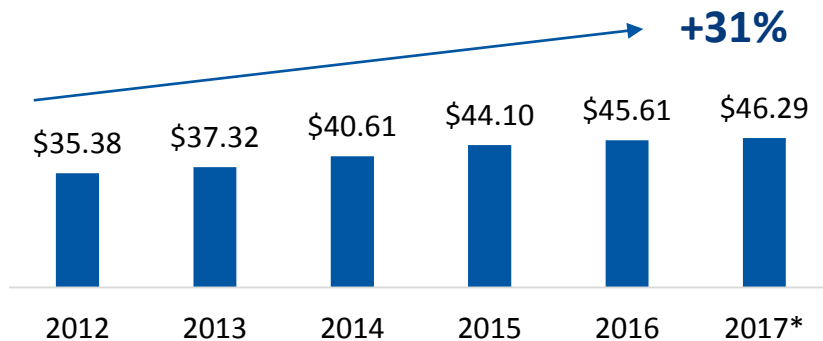
# Consistent Improvement in Underlying Metrics



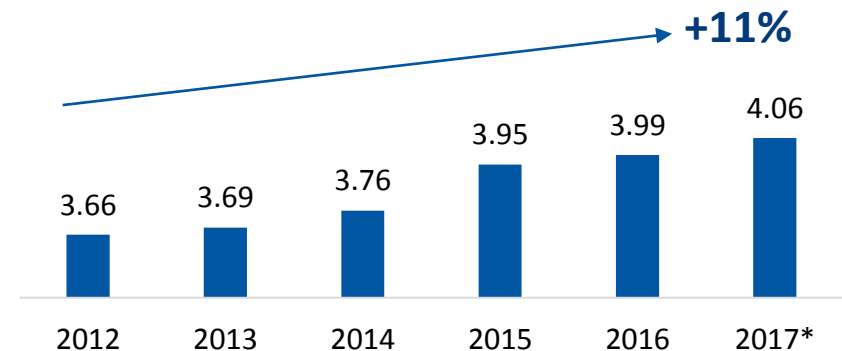
BBW Retail Gross Margin



NA Dollars Per Transaction



NA Units Per Transaction





# Business Now

Strong Cash Flow  
&  
No Debt



# 2017 Preliminary Results

With Consolidated Comparable Sales of -6.5%, we delivered:

2017 vs 2016

- \$356MM Total Revenues
- 46.5% Retail Gross Margin
- \$12-13MM GAAP Pre-Tax Income





# 2017 Highlights



## DIVERSIFYING and EXPANDING PROFITABLE REAL ESTATE PORTFOLIO:

- “Tourist Locations” tend to outperform traditional mall stores; NYC store next to Empire State Building opened 4Q 2017 is exceeding plan
- Remodeled Discovery stores outperform Heritage stores on average
- Newer formats like “concourse shops” and “pop-up shops” can expand portfolio with comparatively low capital investment
- Aggressively renegotiated favorable short-term lease extensions which are contributing to positive 4-wall contribution
- Expanded globally with China franchise deal; first 2 stores already open

## SUCCESSFUL E-COMMERCE LAUNCH:

- After rebuilding core IT infrastructure, launched best-in-class web platform in Q4 2017, delivered 4Q comp increase of ~12%





# 2017 Highlights



**GIFTCARD GROWTH:** Standard gift card sales increased, particularly at 3<sup>rd</sup> party vendors; the gift of the “Build-A-Bear Experience” is in strong demand

**STOCK REPURCHASE:** Concluded Strategic Alternatives process with Board approval of a stock buy back of \$20MM\*; repurchased ~500,000 shares in 2017 with approximately \$15MM remaining under the authorized plan

**PROGRESS ON NEW REVENUE STREAMS:** Continued to lay critical groundwork on other revenue diversification efforts including out-bound licensing and entertainment



# Insights



## REAL ESTATE DIVERSIFICATION REMAINS KEY

- Opportunity to continue to diversify real estate portfolio
  - Add more “tourist locations” + opportunistic Discovery remodels
    - Planned openings in San Francisco, Baltimore, Orlando and Chicago
  - Continue to leverage “concourse shops” and “pop-up shops”
  - New international franchise capabilities provide solid growth potential; In late-stage negotiations with 3 additional international franchisees

## BIG OPPORTUNITY TO CAPITALIZE ON E-COMM ECONOMY

- New web site can drive business as buildabear.com currently represents only 6% of total BBW retail business vs industry reported rates of 10-20%

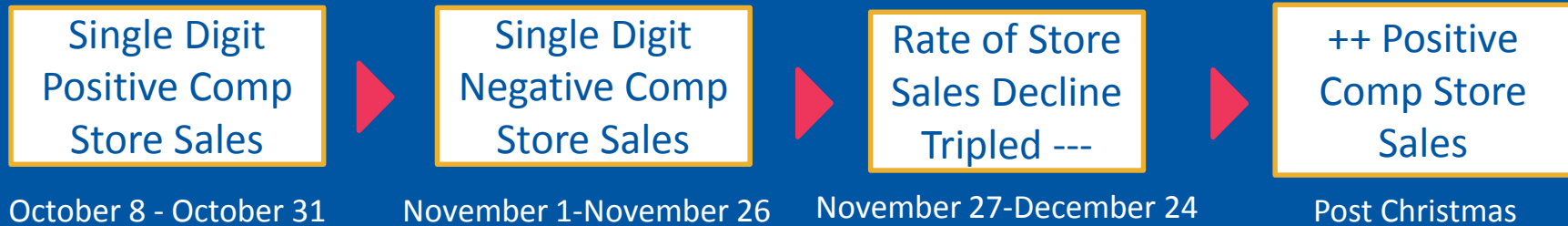




# Insights



## CONSUMER SHOPPING HABITS ARE CHANGING AT A MORE RAPID PACE – WITH VOLATILITY FOCUSED IN 4Q & DECEMBER:



- The acute macro shift in December consumption patterns to e-commerce shopping negatively impacted our total business for *the quarter and the year* – we will re-think our December go-to-market approach in 2018

## BBW “PLANNED” VISITS STILL STRONG AS A PERCENT OF TOTAL:

- However, “unplanned” store purchases in December were negatively impacted by declining mall traffic, as fewer families consider malls a place for fun and entertainment during the holidays. In contrast, “tourist location” holiday “pop-ups” delivered high single digit growth





# Insights



## PROFITABLE US STORE BASE CAN FUND FUTURE STATE:

- Profitable store base generates cash, even with negative comps, to fund new business model designed to leverage the brand power into new, margin accretive revenue streams

**Why not close stores that aren't  
comping positive?**







Top Quartile  
US Stores  
(with or without .com)

**POSITIVE COMP**

**~18% EBIT**

Bottom Quartile  
US Stores

**DOUBLE DIGIT  
NEGATIVE COMP**

**~18% EBIT**

**Comparable store sales alone do not accurately reflect  
the health of our business**

# Real Estate Portfolio Evolution



**Modular store design and mobile equipment enable seasonal, pop-up and other formats with lower capital requirements**

Before 2013	2018 Projected	Next 3-5 Years
~90%+ In-line locations in Traditional Malls	~80% In-line locations in Traditional Malls	~60-70% In-line locations in Traditional Malls
2,800 Square Feet per Store	2,200 Square Feet per Store	1,800 Square Feet per Store
Heritage Store Design	Transition to Discovery design across a number of retail solutions	Continued diversification with modular formats in range of sizes and locations

# But What Happens When Malls Close?



**“Malls are doomed: 25% will be gone in the next 5 years”**

- CNN MONEY



# But What Happens When Malls Close?



## NUMBER OF US MALL CLOSURES WE EXPECT TO MATERIALLY NEGATIVELY EFFECT BBW:

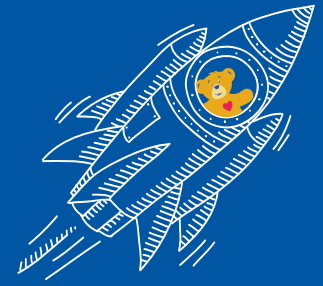
0

### WHY?

- Approximately 1,200 malls currently operating in the US
- BBW has already closed most of our underperforming mall stores and has temporarily extended favorable lease terms in mid-tier malls
- ~25% of mall closure equates to 900-1,000 malls remaining open
- BBW is planning no more than ~300 stores to be located in traditional malls in the US in the next 5 years; still leaving penetration at a third or less
- Many experts predict that remaining malls will see improved traffic post failing mall closures due to transfer sales



# The Strategy is Sound



Use experiential retail model to diversify and expand the global footprint to generate cash

Brand Power

Leverage and invest in the power of the brand to build margin accretive revenue streams

\$ Investment

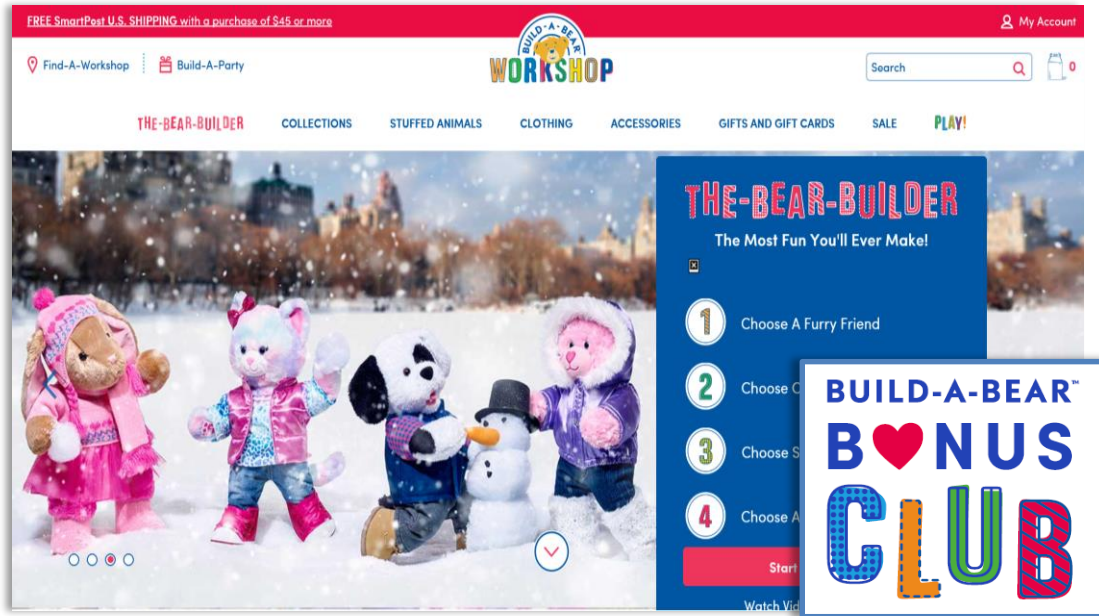
An experiential retailer with a strong brand



A strong branded company with a diversified profitable business model



# E-Comm and Omni-Channel Opportunity



- Largest single “store” (while under-indexing industry as % of business)
- New site launched 4Q 2017, +~12% consolidated 4Q 2017 growth
- New “Bear-Builder” step-by-step experience mimics store while building sales metrics
- Fully integrated with refreshed CRM program and consumer database
- Expect to drive “gifting” category primarily through e-comm platform

**2017 4Q web sales as % of total retail were 9%, highest level ever**

Before 2013	2018 Projected	Next 3-5 Years
Heritage Look/no “experience”	Re-launched site with “Bear-Builder” experience	Upgrade with gifting and expand omni-channel
Less than 4% of Retail Sales	8-10% of retail sales	Over 10% of retail sales
Losing money	18% EBIT	20%+ EBIT

# International Franchising Expansion



## “Shrink to Grow” Approach:

- Terminated marginal operators while restructuring international organization and adding infrastructure
- New China franchise signed in 2017, first two stores already open
- Other key areas in development with advanced discussions covering 6 additional countries on 3 continents

**Finished 2017 with most international franchise locations in history:**  
**102**

2013	Expected 2018	Next 3-5 years
14 countries	13 countries	15-20 countries
86 stores in traditional malls	110-130 locations in multiple formats	150-175 locations in diverse locations and formats
Royalty based on % of Sales	Royalty % of Sales + % of fixtures and supplies	Royalty % of Sales + % of fixtures, supplies AND merchandise

# Outbound Licensing and Entertainment Growth



- Royalty based revenue model with higher than average flow-through to bottom line
- Successful launch of Build-A-Bear Workshop Stuffing Station by Spin Master™ in all major retailers in US and UK in Fall 2016
- Means to profitably extend the brand into key categories including Crafts, Footwear, Activewear, Electronics, Publishing, Graphic Novels, Collectibles, HBA

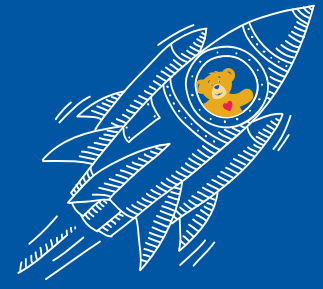
**Currently 15 Licensees covering 10+ Categories carried in 59+ Retailers in 15 Countries**

2013	Expected 2018	Next 3-5 years
No new licensees	15 Licensees/10+ categories	20+ licensees/20+ categories
	90%+ flow through of royalty revenue	90%+ flow through of royalty revenue





# The Strategy is Sound



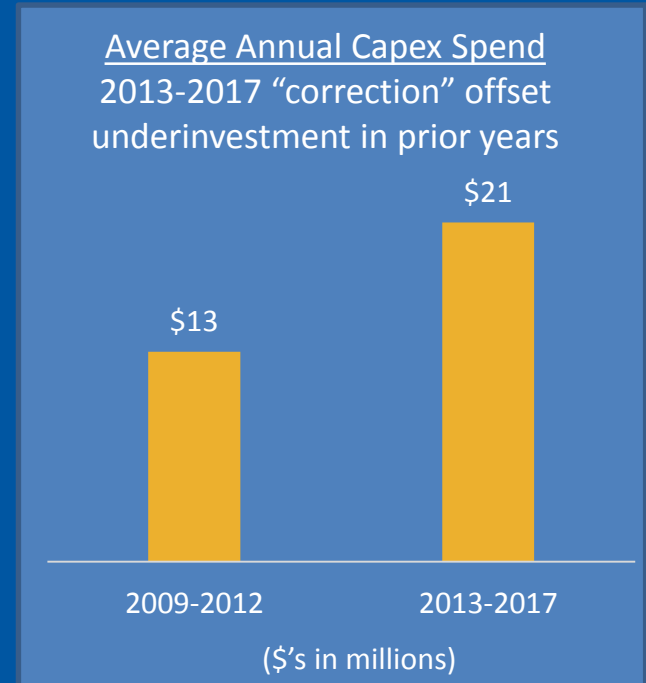
## Diversified Revenue Stream Summary

Revenue Stream	3-5 Years Potential Growth Rates	Expected Contribution Margin Percentage	Expected Relative Contribution Dollars	Expected Relative Capital Investment
Brick & Mortar Retail	Low to Mid Single Digits	20-25%	High	Med - High
E-commerce	High Single to Low Double Digits	20-25%	Med	Med
International Franchising Royalty	High Single to Double Digits	90+%	Low - Med	Low - Med
Brand Out-Bound Licensing & Entertainment Royalty	+ Double Digits	90+%	Low	Low



# 2018 Preliminary Expectations

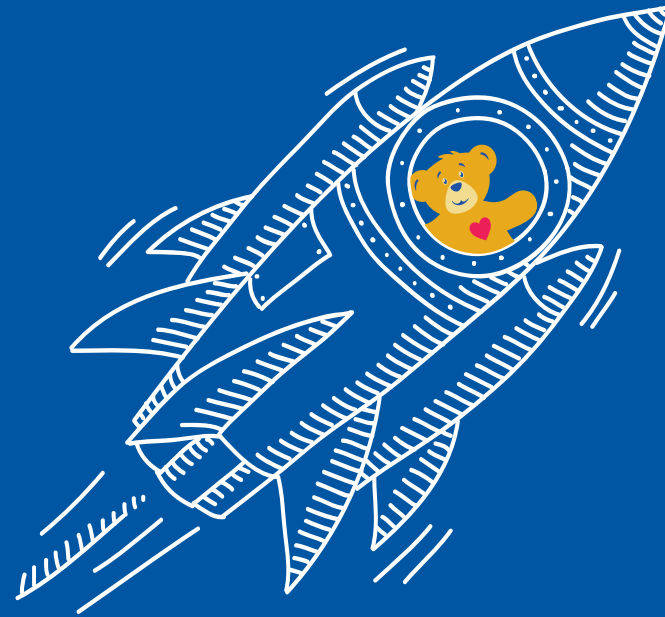
- Flat to low single digit revenue growth
- EBIT/EPS growth\*
- Stock re-purchase program continuation
- More “normalized” Capital Expenditures of \$15-18MM  
(more aligned with current depreciation levels)



*\* Given the potential impact of anticipated accounting changes and recent tax changes, we expect to be able to provide additional guidance during our upcoming 2017 year-end earnings call. In addition, as a reminder, the BBW fiscal year will change to a February to January year for 2018 from the current calendar year.*



# Thank you!



Build-A-Bear  
1954 Innerbelt Business Center Dr.  
St. Louis, MO 63114  
[www.buildabear.com](http://www.buildabear.com)