



BUILD-A-BEAR  
WORKSHOP®

Sharon John, 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 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.

# BBW Company **SNAPSHOT**



## Company overview

- Specialty retailer offering make-your-own stuffed animals in an interactive store setting
- Founded 1997, IPO 2004
- Over 400 stores in 18 countries
  - 323 company owned in US, Canada, UK and Ireland\*
  - 86 franchise stores in 14 countries\*
- Over 125,000,000 furry friends sold
- 6 consecutive years on Fortune's "100 Best Companies to Work For" list



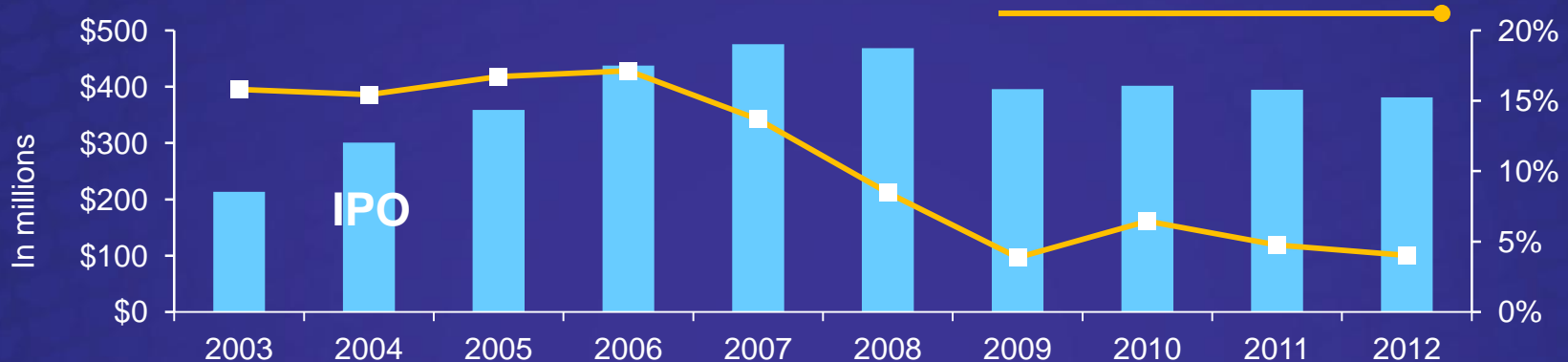
2013 Total Revenues	\$379M
Market Cap	\$135M*

\* Market cap as of 12/28/2013

# BBW business HISTORY



## 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”



# What brought me to **BBW**?



- **Relevant background:**
  - 20+ years experience in businesses focused on kids and moms
  - 15 years experience in the toy industry
  - 3 years leading a specialty children's retailer in a turnaround mode
- **Company had a successful past, solid infrastructure in place**
- **Strong, leverageable brand with untapped potential**



Get to know **MORE** about  
**BUILD-A-BEAR**

# Building a **BETTER BIGGER** Bear



1. **BBW** has a strong **BRAND**
2. **BBW** has a strong **TURNAROUND** plan
3. **BBW** has a strong **FUTURE**



# The earmarks of a strong **BRAND**

- **Recognizable**
- **Emotional**
- **Trusted**
- **Loyal consumer base**

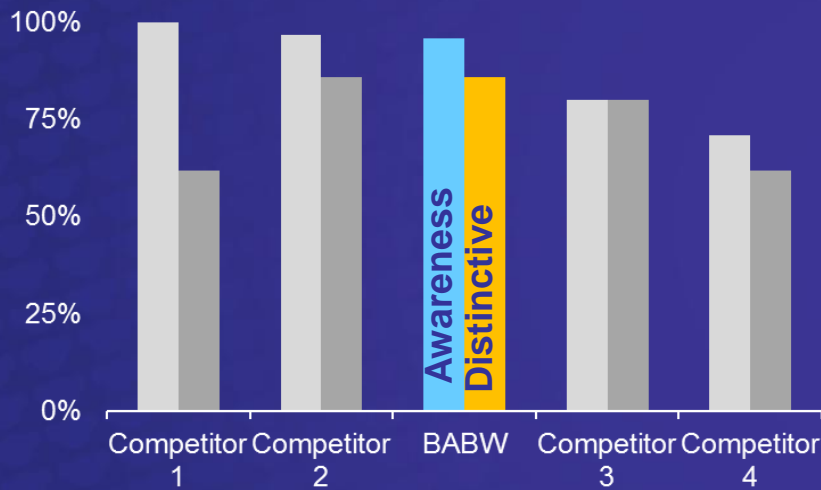


# a strong **BRAND**



## 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: Moms

Statement % Agree

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 you can share</b> with a child	63

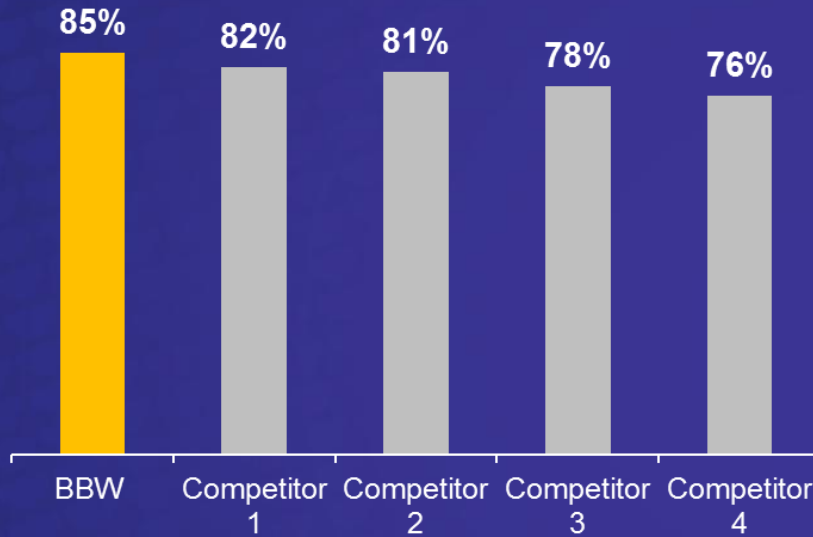
- Brand recognition is aided awareness

# a strong **BRAND**

## Loyal brand advocates



Brand Loyalty Index



Multiple Visits

Over **4.4** Million  
Active Loyalty  
Program Members

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

*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, US Market

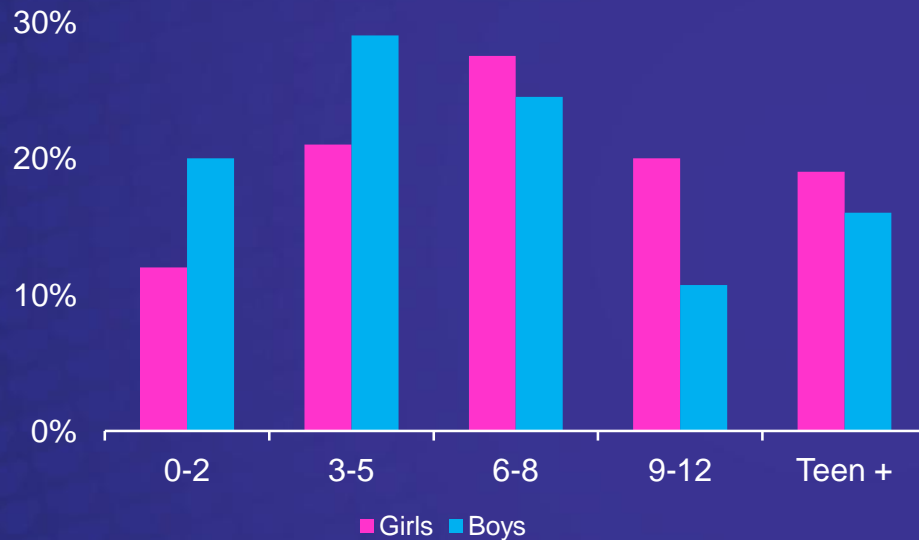
Active loyalty program members have made a purchase in the last 15 months

# a strong **BRAND**

## plus...broad demographic appeal



### Age Distribution by Gender



Gender ratio of children age 12 and younger



### Highly Desirable Demographics

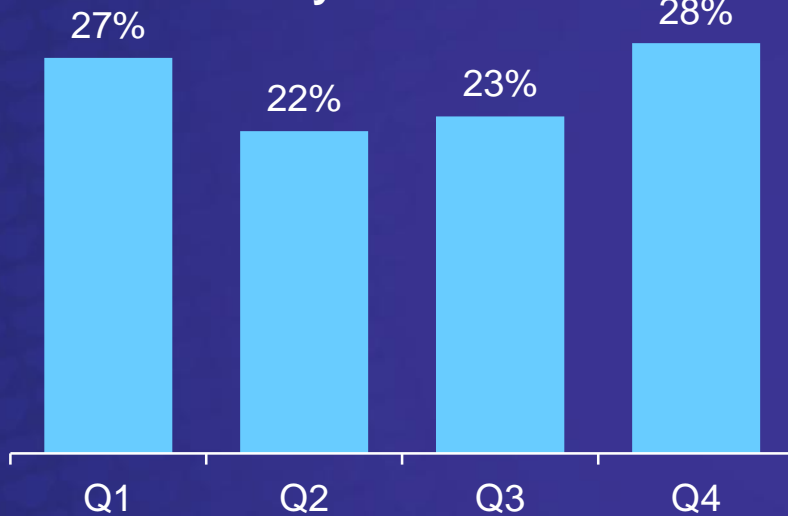
- Strong family appeal
- College Educated
- \$50,000+ Household Income
- 25-45 Head of Household

# a strong **BRAND**

## balanced sales, multiple purchase drivers



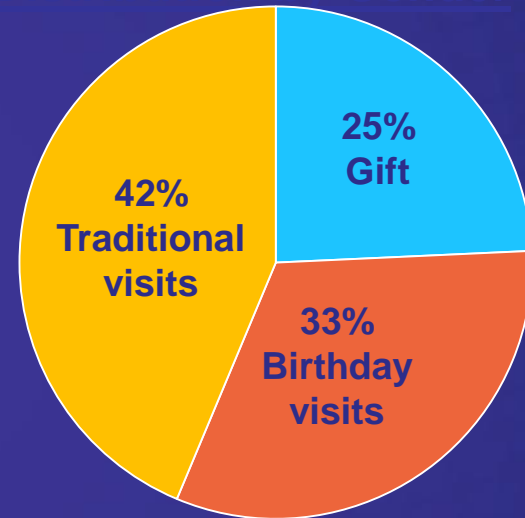
North American Net Retail Sales  
by Quarter



Average of 2011-2013

2013 "Reasons for Visit"

[Breakdown by Gender](#)



Source: BBW Guest registration database

**BBW GIFT  
CARDS**  
"the gift of  
experience"

Gift cards drive approximately 10% of total net retail revenue

- Over 90% of gift cards are redeemed
- Average 60% lift over face value at redemption

# building a



# **BETTER BIGGER** Bear

1. **BBW has a strong BRAND**
2. **BBW has a strong TURNAROUND plan**



# BBW operational **TURNAROUND** set in motion in 2<sup>nd</sup> Half 2012



**We must build 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



# **TURNAROUND** 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**

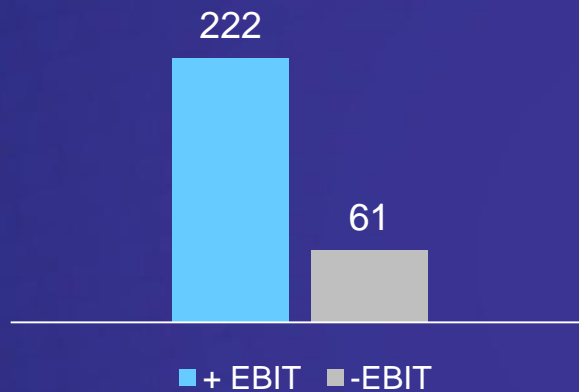
**OPTIMIZE**  
real estate

# 2012 Situation:

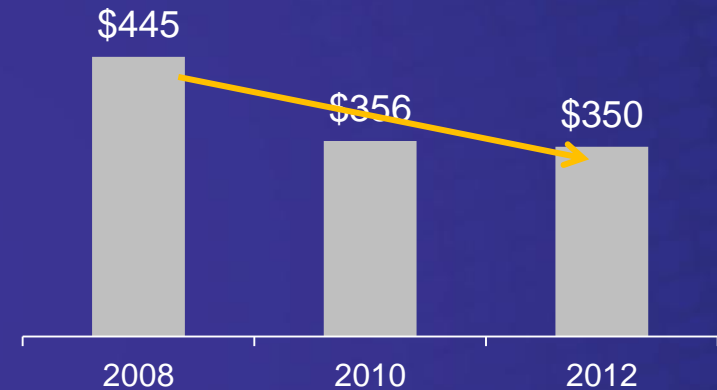


- **22% of NA stores were unprofitable**
- **Sales productivity was declining**

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

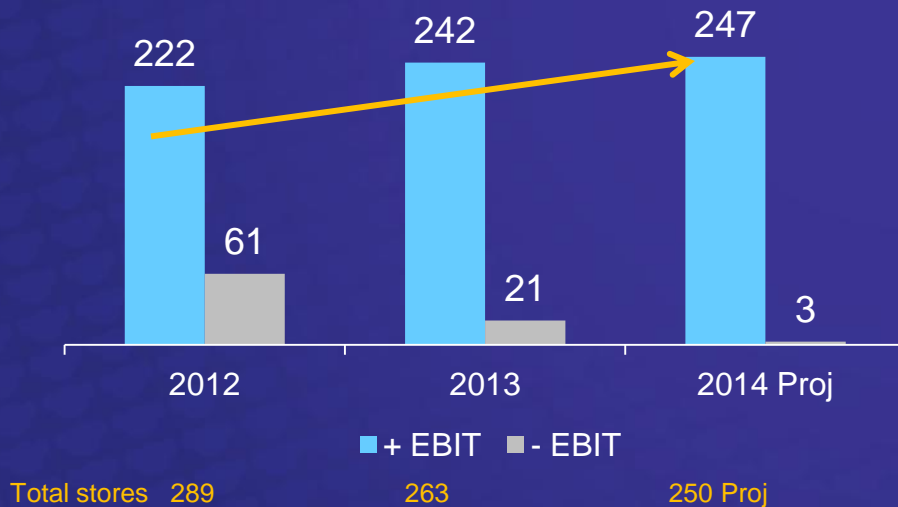
- Selectively downsize square footage
- Refresh store design in key locations in major markets



## 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



2014 Proj is FY projected result

NA Sales per square foot



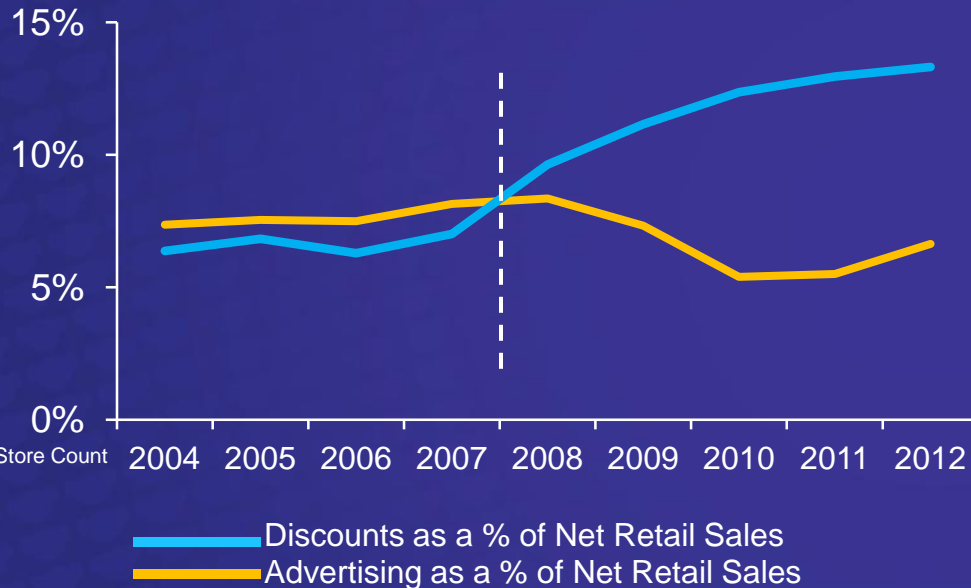
**RESET**  
consumer  
value  
equation

# 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

Prior to 2008, BBW invested a larger proportion of our Marketing spend on brand building advertising but shifted to a price promotion and discount strategy. Marketing optimization models showed that the brand building initiatives yielded a higher ROI in driving revenue.

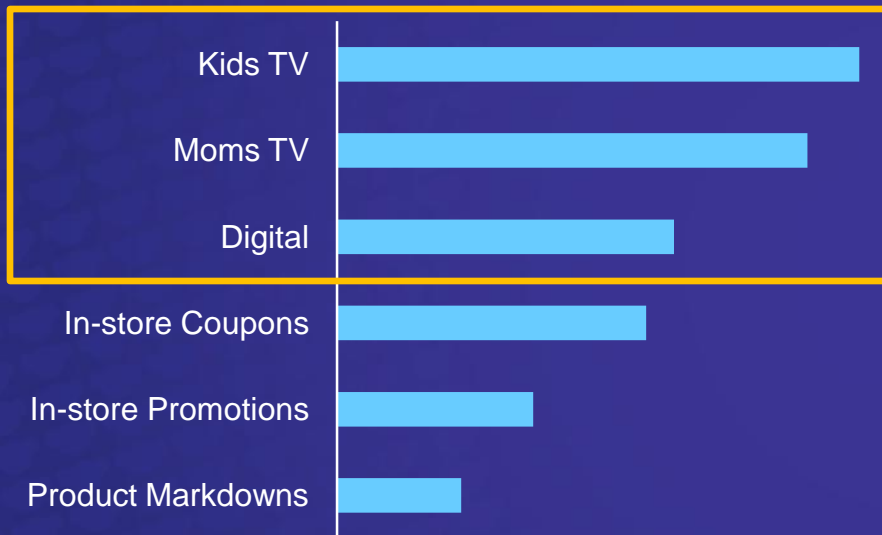
**RESET**  
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# 2012 SITUATION:



- **Rising discounts**
- **Less focus on brand building**

## Net Sales ROIs In Cascading Order of Priority



**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**

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

**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



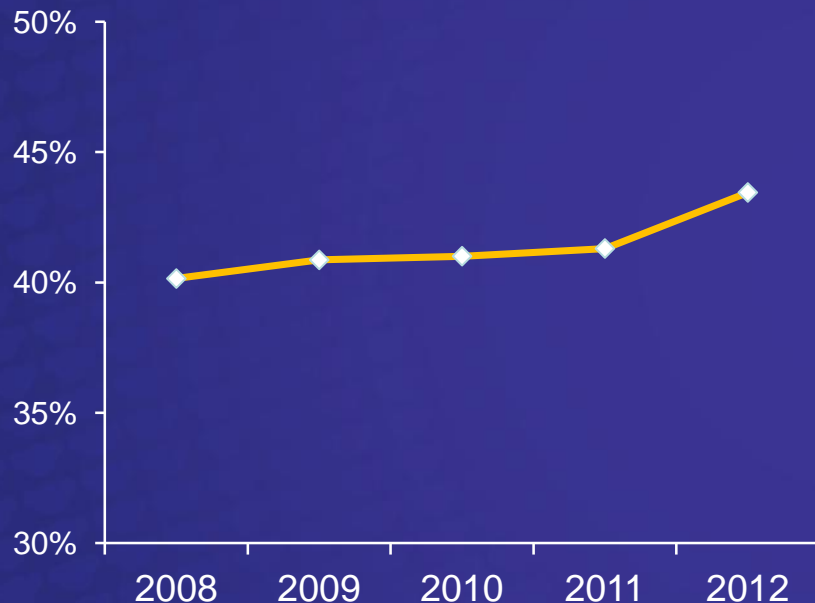
**RATIONALIZE**  
expenses

# 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

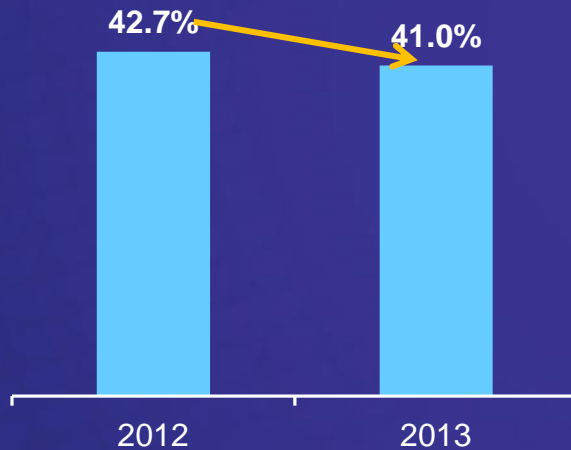
**RATIONALIZE**  
expenses

# 2013 RESULTS

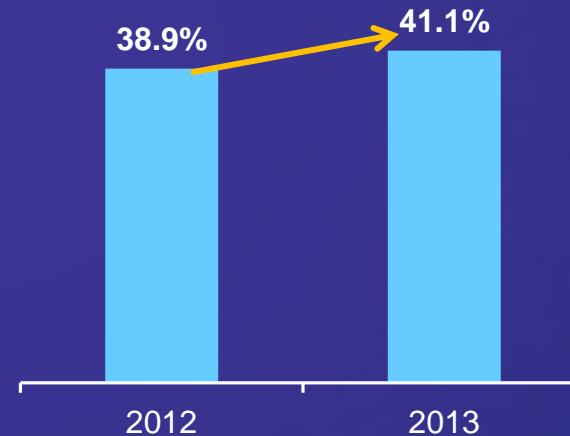


- **170 bps** improvement in **SG&A as a % of Total Revenues**
- **220 bps** expansion in **Retail Gross Margin**

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



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



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



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

**business  
TURNAROUND**

# STOCK PERFORMANCE



**BBW**

**\$7.74**

12/28/13 Close

**98%**

1-year change

**\$10.35**

52-week High

**\$3.70**

52-week Low

As of BBW fiscal year beginning 12/29/2012 through 12/28/2013

# Returning North America retail to PROFITABILITY



## GOALS:

- **\$450-500 PER SQUARE FOOT**
- **10% EBITDA**

### TARGET STORE ECONOMICS (over the next 2-5 years)

Key NA metrics	Target	2013
Average store sales (millions)	\$1.2-\$1.4	\$1.1
Average gross square feet	2,600-2,800	2,800
Average sales/gross square feet	\$450-\$500	\$381
Store contribution (EBITDA)*	20-22%	17%
Number of traditional stores	240-260	252

- **What about SG&A and Retail Gross Margin?**

\*Store location net retail sales minus cost of product, marketing and store related expenses (excludes store depreciation, amortization & impairment and non-store general and administrative expenses)

# building a



# **BETTER BIGGER** Bear

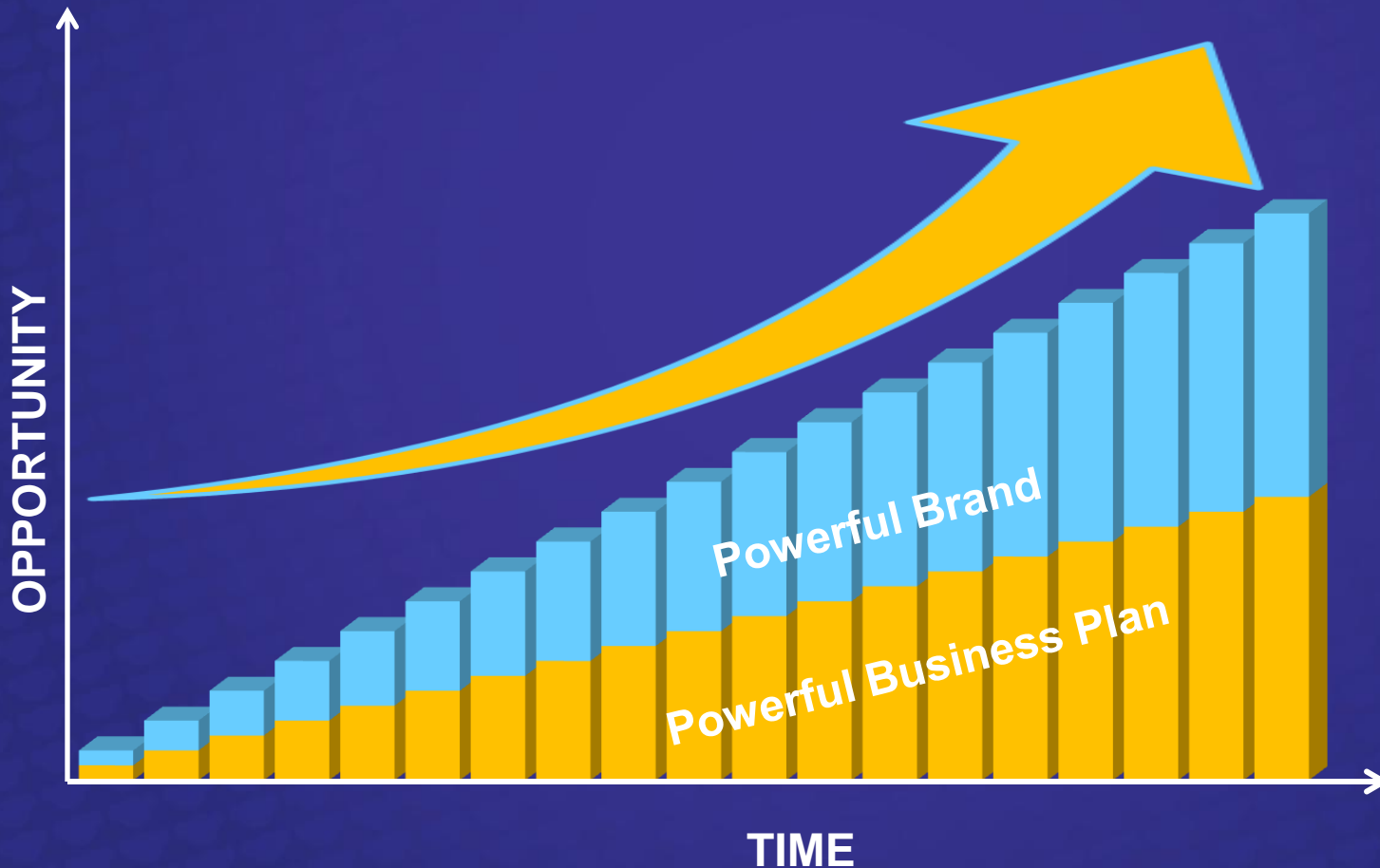
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# a **STRONG** future



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



# a **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

# building a



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**strong BRAND**  
**strong TURNAROUND plan**  
**strong FUTURE**

MORE



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THANK YOU

Sharon John, CEO