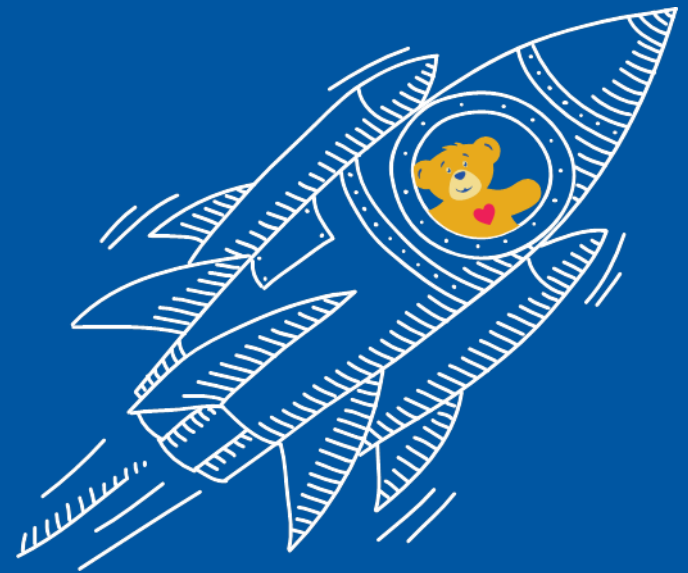




# Investor Presentation

September 2018



# 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) a decline in mall traffic could adversely affect our financial performance and profitability; (2) we may be unable to generate interest in and demand for our interactive retail experience and products, including being able to identify and respond to consumer preferences in a timely manner; (3) our marketing and on-line initiatives may not effectively build consumer affinity for our brand, drive consumer demand and generate traffic for our stores; (4) general global economic conditions may decline, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending; (5) the availability and costs of our products and our product pricing may be adversely affected by risks associated with international manufacturing and trade and foreign currency fluctuations; (6) we may be unable to renew, renegotiate or replace our store leases, or enter into leases for new stores on favorable terms, or we may violate the terms of our current leases; (7) we may suffer disruptions, failures or security breaches of our information technology infrastructure or we may improperly obtain or be unable to protect our data or violate privacy or security laws or expectations; (8) we may not be able to evolve our store locations to align with market trends or effectively manage our overall portfolio of stores; (9) we may not be able to operate successfully if we lose key personnel, are unable to hire qualified additional personnel, or experience turnover of our management team; (10) we may suffer negative publicity or be sued if the manufacturers of our merchandise or Build-A-Bear branded products sold by our licensees ship products that do not meet current safety standards or production requirements or if such products are recalled or cause injuries; (11) we may not be able to operate our international corporately-managed locations profitably; (12) we are subject to risks associated with technology and digital operations; (13) we rely on a few vendors to supply substantially all of our merchandise, and significant price increases or disruption in their ability to deliver merchandise could harm our ability to source products and supply inventory to our stores; (14) we may fail to renew, register or otherwise protect our trademarks or other intellectual property and may be sued by third parties for infringement or misappropriation of their proprietary rights; (15) we may suffer negative publicity or be sued if the manufacturers of our merchandise violate labor laws or engage in practices that consumers believe are unethical; (16) our company-owned distribution center or our third-party distribution center providers may experience disruptions in their ability to support our stores or they may operate inefficiently; (17) our profitability could be adversely impacted by fluctuations in petroleum products prices; (18) we may be unable to effectively manage our international franchises, attract new franchisees or laws relating to international franchises may change; (19) our business may be adversely impacted by a significant variety of competitive threats; (20) we may suffer negative publicity or a decrease in sales or profitability if the products from other companies that we sell in our stores do not meet our quality standards or fail to achieve our sales expectations; (21) we may be unsuccessful in acquiring businesses or engaging in other strategic transactions; (22) 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; (23) fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline; (24) limited public float and trading volume in our common stock may have an adverse impact and cause significant fluctuation of market price; and (25) provisions of our corporate governing documents and Delaware law may prevent or frustrate attempts to replace or remove our management by our stockholders, even if such replacement or removal may be in our stockholders’ best interests. 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 Overview



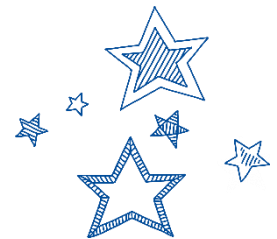
- **20+ YEARS YOUNG:** Established in 1997 as an experiential retailer offering make-your-own stuffed animals; IPO in 2004
- **GLOBAL:** Nearly 500 retail locations around the world through a combination of direct and franchise operations generating over \$350MM in annual revenue
- **STRONG BRAND:** Posting awareness and loyalty numbers rivaling brands many times our size
- **EVOLVING:** In late stages of 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



# Why BBW



- **Transformation of business model** is working and driving:
  - Sustained profitability;
  - Strong cash flow with no debt; and
  - Sales productivity and gross margin expansion
- **Powerful brand** with broad appeal with untapped monetization opportunities
- **Growth opportunities** to drive long-term sustained profitable growth
  - Retail diversification
  - E-Commerce and Gifting Growth
  - International franchising
  - Revenue Diversification including outbound brand licensing and entertainment





# Business Now



4

**CONSECUTIVE YEARS OF  
PROFITABILITY**

2014 - 2017 GAAP Pre-Tax  
after 8 consecutive years of Pre-Tax losses



~95%

**Profitable US Stores**

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



**Strong Cash Flow & No Debt**

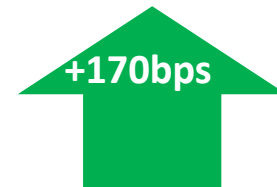


# 2017 Highlights

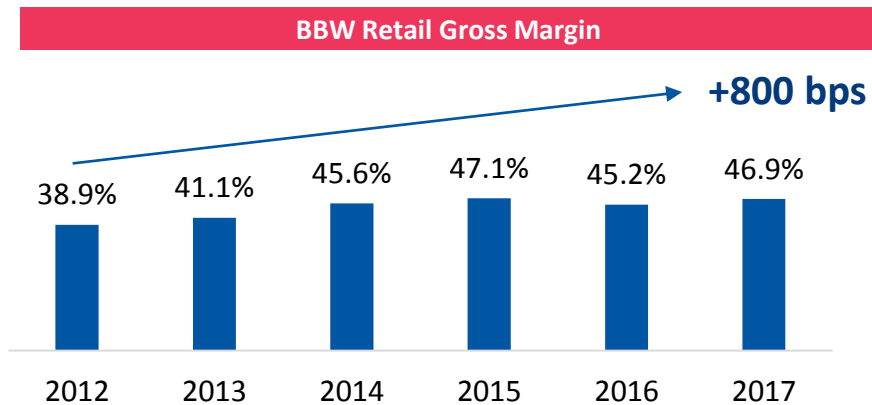


- \$358MM Total Revenues
- 46.9% Retail Gross Margin
- \$13.8MM GAAP Pre-Tax Income

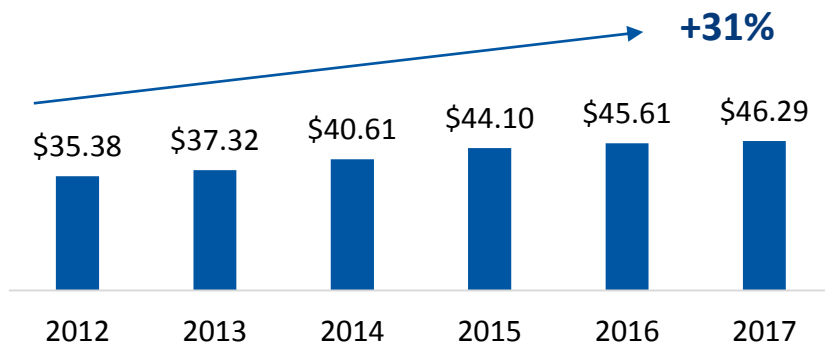
2017 vs 2016



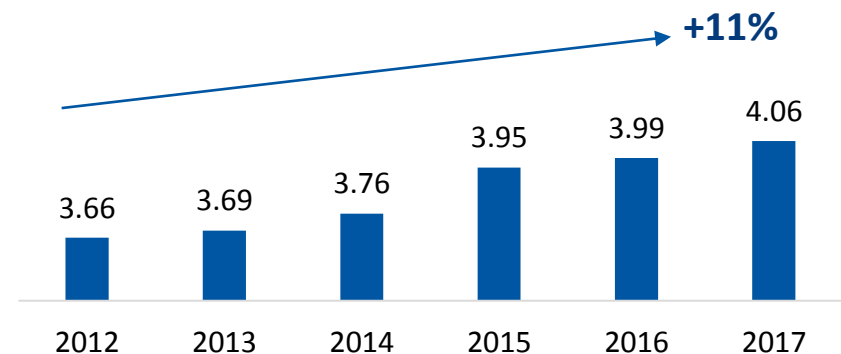
# Consistent Improvement in Underlying Metrics



**North America Dollars Per Transaction**



**North America Units Per Transaction**



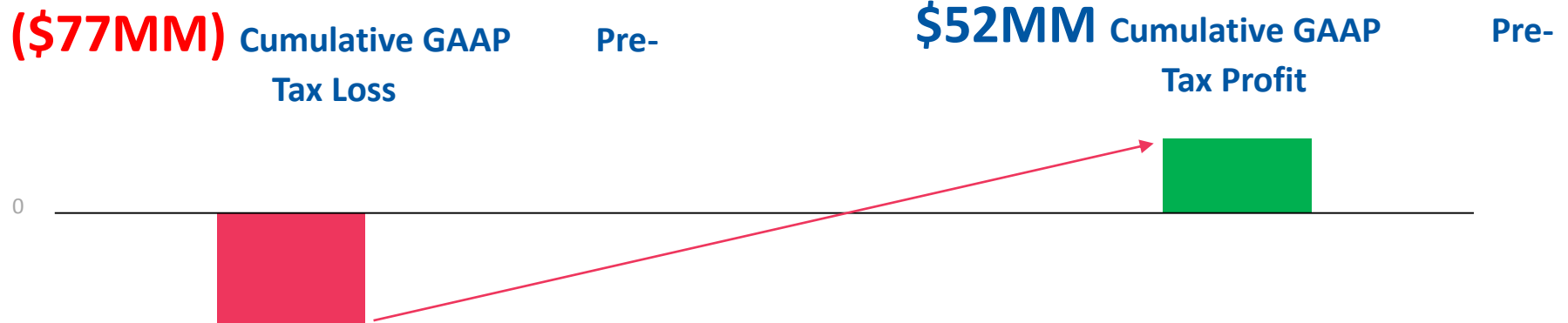
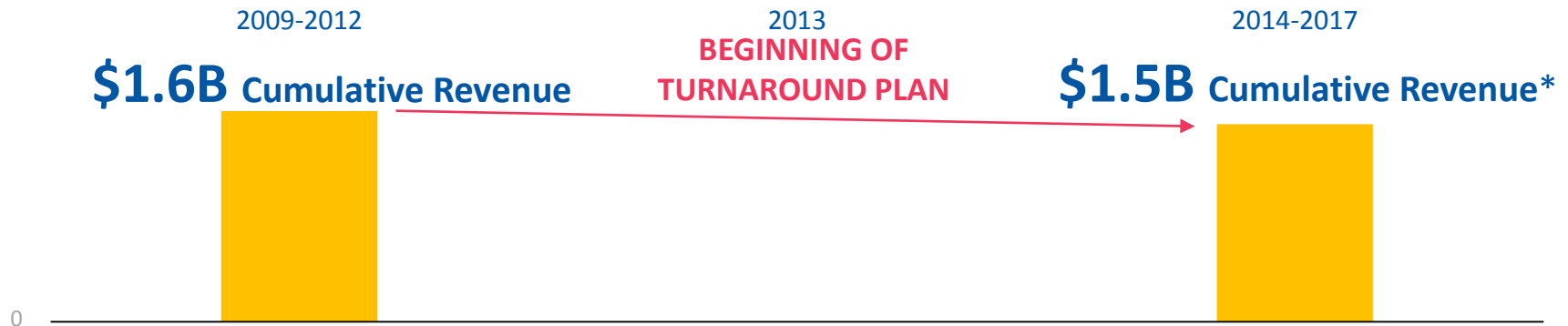
# A Stronger Company Delivering Sustained Profitability



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



Post Turnaround:  
4 consecutive years of Pre-Tax Profits





# Build-A-Bear is a Powerful Brand

# 90%+

## Aided Brand Awareness

US Moms of Kids ages 2-12

Balanced  
Seasonality  
(not like toys)

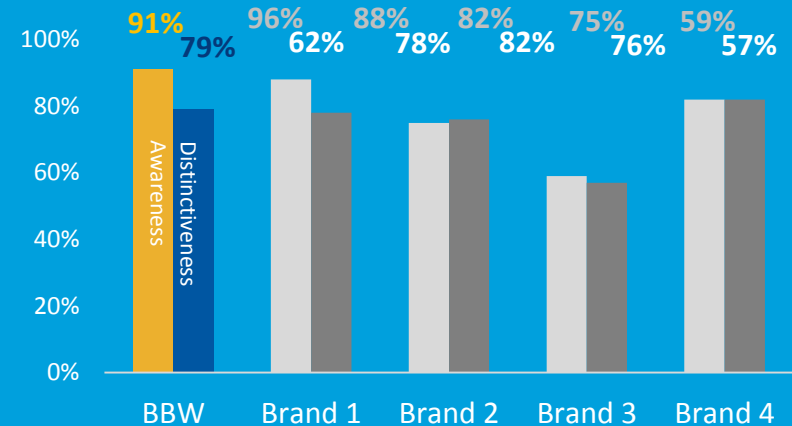


□ 1st Qtr □ 2nd Qtr □ 3rd Qtr □ 4th Qtr

Our Brand's DNA:

**CREATIVITY DISCOVERY & FUN**

## A Distinctive Brand with Consumers



Other brands include American Girl, Disney Store, Justice, LEGO Store

Source: C&R Research, 2017

Build-A-Bear is a brand that  
Moms **TRUST** and Kids **LOVE**





Over **175 million**  
Furry Friends sold (and  
memories made) in first  
20+ years!



# Growth Opportunities

**Powerful Brand**

+

**Evolving Business Model**



**Continued focus on the evolution of our Strategic Plan to monetize the Build-A-Bear brand across channels, geographies, consumers and categories:**

1. Retail Diversification
2. E-Commerce and Gifting Growth
3. International Franchising
4. Revenue Diversification

**Deliver Long-Term Sustained PROFITABLE Growth**



# Retail Diversification: Multiple Store Formats



Our stores can be located wherever families are going for fun, entertainment and shopping in a variety of sizes, formats and capital structures.



Flagship Tourist  
e.g., 34<sup>th</sup> Street, NYC



Traditional Discovery Stores



Heritage Stores



Concourse Discovery Stores



Shop-in-shops



Seasonal Shop-in-shops  
e.g., Gaylord Holiday Ice Event

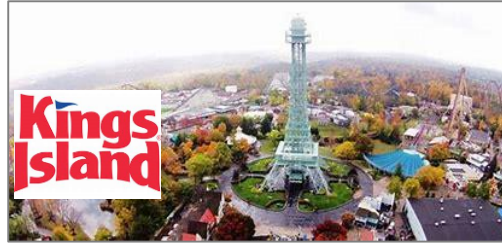


Build-A-Bear Bakeshop

# Retail Diversification: 2018 Tourist Locations



San Francisco, CA



Cincinnati, OH



Baltimore, MD



Santa Anita, CA



FAO Schwartz Shop-in-shop  
Rockefeller Center, NYC



Chicago, IL



Fashion Outlets  
Niagara Falls



Beginning in mid-October, we expect to open a half dozen full-service Build-A-Bear Workshop stores which will be situated inside select Walmart locations.

- We feel confident that the combination of our unique retail experience with Walmart at a time when billions of dollars of toy sales are expected to transfer, provides an opportunity to leverage a broader customer base.
- The inaugural sites were selected using comprehensive data analytics such as toy sales and consumer demographics overlaid with markets where Build-A-Bear is currently underpenetrated.



# Retail Diversification: Experiential and Traditional Wholesale



On 2x Carnival Cruise Line ships



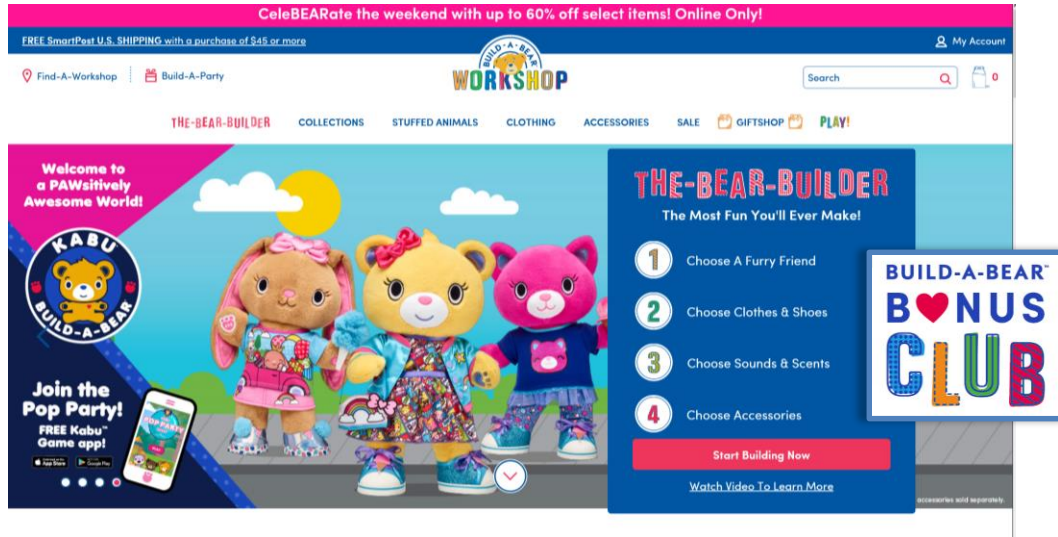
There are 18 Great Wolf Lodge locations in the US and CA; first 3 open Fall 2018



Select T-Rex Cafes



Corporate programs for Southwest Airlines, Jet Blue, United, John Deere. CDW, college sororities and professional sports teams



- Largest single “store” (while under-indexing industry as % of business)
- New site launched 4Q 2017, +14.4% in Q2 2018, +DD FYTD 2018
- New “Bear-Builder” step-by-step experience mimics store while building sales metrics
- Fully integrated with refreshed CRM program and consumer database
- Gifting 2.0 planned for Q4 2018

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



# E-Commerce Growth: DRTV, BAB Giftshop



Direct response television (DRTV) September 2018 test will feature Promise Pets product offering:

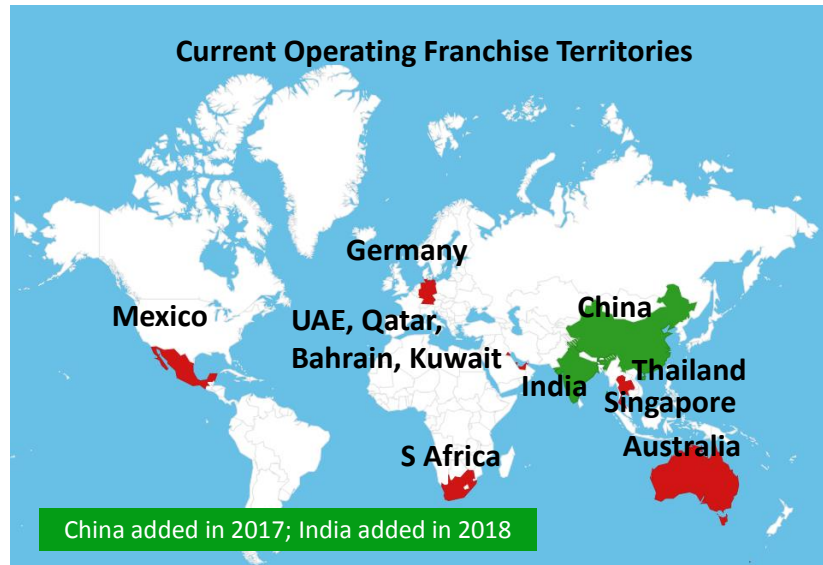


Examples of plush successfully sold via DRTV



Dedicated gifting section has been launched on existing web site, gifting 1.0, with future initiatives in development for release prior to Holiday season

# International Franchising



After initial “Shrink to Grow” approach, now delivering significant growth:

- Terminated marginal operators while restructuring internal organization and adding infrastructure
- China franchise signed in 2017, expect to have 8-10 stores by the end of the year
- India franchise signed in 2018, expect to have 8 stores by the end of the year
- Other key areas in development

**Expect to Finish 2018 with ~120 franchise locations in 12 countries**

2013	Expected 2018	Next 3-5 years
14 countries	12 countries	15-20 countries
86 traditional stores	~120 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

# Revenue Diversification: Outbound Licensing



- Royalty based revenue model with higher than average flow-through to bottom line
- Means to profitably extend the brand into key categories including Crafts, Footwear, Activewear, Apparel and Accessories, Electronics, Publishing, Graphic Novels, Collectibles, HBA, Infant and Baby, select toy categories with Just Play

**Currently 15 Licensees covering 22 Categories carried in 7,500 Retailers**

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



- **Build-A-Bear Radio** expected to launch in early October, powered by DASH, a multi-station streaming platform with over 5MM subscribers and agreement to be standard in variety of new GM vehicles in the US
- Will be exclusive kids' offering on DASH
- Adding new sound studio to Build-A-Bear Workshop store in NYC next to Empire State Building to host live events and performances

## **Other Entertainment** developments:

- Publishing/Books: Lions Forge (Kabu)/Hachette (Other) for Summer 2018/2019
- Branded Apps: Be Bright/ Kabu/Minecraft, Summer 2018
- Betty Brinn: 5-year children's museum tour/shops, launches Q1 2019

# Retail Diversification



Revenue Stream	3-5 Years Potential Growth Rates	Expected Contribution Margin Percentage	Expected Relative Contribution Dollars	Expected Relative Capital Investment
<b>Brick &amp; Mortar Retail</b>	Low to Mid Single Digits	20-25%	High	Med - High
<b>E-commerce</b>	High Single to Low Double Digits	20-25%	Med	Med
<b>International Franchising Royalty</b>	High Single to Double Digits	90+%	Low - Med	Low – Med
<b>Experiential Wholesale</b>	High Single to Double Digits	40%	Low - Med	Low
<b>Outbound Brand Licensing &amp; Entertainment</b>	+ Double Digits	90-95%	Low	Low



## Disciplined execution of growth strategies and expense management



While continuing to upgrade systems and processes

# Count Your Candles/Pay Your Age Day



We ♥ BIRTHDAYS



The age they are turning is how much our special Birthday Treat Bear costs during their birthday month!

New 'Count Your Candles' Guest Acquisition and Activation Program launched in July that allows any child to come to a Build-A-Bear Workshop store in the month of their birthday and "pay their age" for a special 'Birthday Treat Bear'

- Drives visitation: Birthdays are number one visit occasion
- Broadens demographic and economic accessibility
- Benefit of Bonus Club builds membership and database
- Drives traffic to stores
- "Rite of passage moment" shareable on social media
- While discount is higher for younger children, the increased potential for lifetime value is greater

Campaign was kicked off on July 12 with 'Pay Your Age Day' event in which anyone could come to one of our stores and purchase any animal for their age on that one day. Marketing was limited to social outreach and PR



# Impact of Count Your Candles



- **MOMENTUM SHIFT:**  
Pay Your Age Day, subsequent vouchers and Count Your Candles program have shifted sales velocity from double-digit decline to triple then double-digit increase; QTD Q3 remains positive
- **BONUS CLUB GROWTH:**  
Over 1MM new accounts created in lead-up to Pay Your Age Day; 75% have not yet shopped yet majority has engaged with follow-on e-mail communications. Now over 6MM Bonus Club members
- **SOCIAL ENGAGEMENT:**  
Over 100K new social followers, now over 3MM total
- **TOP OF MIND BRAND AWARENESS:**  
Nearly 3B media impressions in two weeks surrounding July 12
- **ACQUISITION AND ACTIVATION FROM COUNT YOUR CANDLES:**  
Birthday Treat Bear top-selling furry friend since launch, about half of purchasers are new Bonus Club members





# Reiterating 2018 Guidance



- Total revenues in the range \$345-\$355MM
- Retail Gross Margin expansion in H2 (excl Revenue Recognition Impact)
- GAAP Pre-tax income in the range of \$8.0MM to \$11.5MM and Diluted earnings per share to be in the range of \$0.40 to \$0.57;  
*2018 results are reflecting an estimated \$3.9 million negative impact due to adoption of the new revenue recognition standard on both total revenue and pre-tax income.*
- Depreciation and Amortization in the range of \$16MM to 17MM
- Capital expenditures expected in the range of \$15MM to \$18MM
- Year End Cash Balance of \$25-\$30MM compared to \$21.5MM in '17





[www.buildabear.com](http://www.buildabear.com)