



Q1 2017 Earnings Call

June 21, 2017

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- This presentation also contains financial measures that are not prepared in accordance with U. S. Generally Accepted Accounting Principles (“GAAP”). Please refer to the Bluestem Group Inc. Condensed Consolidated First Quarter Earnings Results press release (“2017 Q1 Earnings Release”) (available at www.bluestem.com) for the reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures. You should read the 2017 Q1 Earnings Release in addition to this presentation. Non-GAAP financial measures in this presentation include adjusted EBITDA, lender adjusted EBITDA, program agreement adjusted EBITDA, contribution margin, adjusted general and administrative expenses, leverage ratio debt, program agreement leverage ratio, lender leverage ratio, working capital, program net liquidity, lender net liquidity and free cash flow.

Q1 Headlines

Topline revenue stable as **Bluestem Brands net sales were \$427.6 million** for the quarter, **flat to Q1 2016**

Bluestem Brands **adjusted EBITDA of \$5.8 million compared to \$3.7 million in Q1 2016** (excludes restructuring costs of \$17.9 million the Company incurred during Q1 2017)

Turnaround efforts exceeding initial expectations, projected in-year expense savings increased by \$5 million to **\$50 million for full year 2017**

As of the end of Q1 2017, Bluestem Group **cash and cash equivalents of \$115.8 million and net Capmark Legacy Portfolio assets of \$14.0 million**

During Q1 2017, the Company paid a special dividend of \$0.60 per share, **returning \$80 million to shareholders**

Bluestem Brands was **in compliance with all covenants throughout and at the end of Q1 2017**

Q1 Key Business Drivers

1. Net sales essentially flat compared to Q1 2016

- Northstar Portfolio year-over-year first quarter net sales increased \$3.9 million or 2.1%
- Orchard Portfolio year-over-year first quarter net sales decreased \$3.5 million or 1.4%

2. Sales and marketing expense decreased \$10.0 million compared to Q1 2016

- Northstar Portfolio net selling margin improved by 340 bps with gross margin rate down 210 bps, offset by marketing expense rate down 550 bps
- Orchard Portfolio net selling margin declined by 390 bps with gross margin rate down 250 bps and marketing expense rate up 130 bps

3. Net credit expense increased by \$16.5 million year-over-year, which includes \$5.8 million of restructuring expenses associated with the exit of PayCheck Direct

- Although we continue to experience increased losses in the portfolio new vintages are demonstrating improved delinquency performance
- Q1 2017 net credit expense includes a non-cash loss on servicing right of \$1.3 million
- Net credit revenue down 180 bps
- Net credit losses increased 220 bps

4. Adjusted G&A expenses decreased by \$11.5 million or 270 bps compared to Q1 2016 (excludes \$12.2 million of restructuring expenses incurred in Q1 2017)

Turnaround Strategy Update

- **Reduce the expense structure**
 - Efforts to reduce expenses outpacing original estimates, total in-year estimates now at \$50 million, incremental \$5 million savings primarily in cost of goods sold
- **Exit non-core businesses**
 - PayCheck Direct ceased sales at the end of April.
 - BGI acquired \$42.7 million of receivables for 69 cents on the dollar, or \$29.5 million, with an expected return of 6% within a year, which accelerated cash flow to Bluestem Brands and represents an attractive use of capital for Bluestem Group
 - Completed exit of Draper's & Damon's retail stores
- **Stabilize the credit portfolio through continued underwriting restraint**
 - Increased competition continues to place pressure on performance of our lowest risk customers, but new vintages demonstrating improved year over year delinquency levels
- **Migrate to a true eCommerce Site Merchandising execution model**
 - Fingerhut conversion rates up 10%+ year over year helping to offset sales pressure created by tighter underwriting
 - Fingerhut investments in mobile platform in 2016 creating improved performance, mobile conversion rates have improved by 40% compared to Q1 2016

Bluestem Brands Q1 Results

unaudited in 000's	Q1 2017	Q1 2016
Net sales	\$ 427,622	\$ 428,516
Cost of goods sold	223,819	214,717
Gross profit	203,803	213,799
Sales and marketing expenses	123,045	132,999
Net credit expense	33,702	17,177
General and administrative expenses	65,035	64,960
Amortization and depreciation not included in cost of goods sold	15,413	16,234
Impairment charge	230	—
Interest expense, net	12,865	13,523
Loss before income taxes	(46,487)	(31,094)
Income tax benefit	(16,034)	(11,923)
Net loss	\$ (30,453)	\$ (19,171)

Margins and Expenses as a Percentage of Net Sales:

Gross profit rate	47.7%	49.9%
Sales and marketing expenses	28.8%	31.0%
Net credit expense	7.9%	4.0%
Contribution margin	\$ 47,056	\$ 63,623
As a percentage of net sales	11.0%	14.8%
Adjusted general and administrative expenses	\$ 49,664	\$ 61,168
As a percentage of net sales	11.6%	14.3%
Adjusted EBITDA	\$ 5,779	\$ 3,666
As a percentage of net sales	1.4%	0.9%
Free cash flow	\$ 4,702	\$ (1,261)
As a percentage of net sales	1.1%	(0.3)%

- Net sales essentially flat YOY
- Gross margin rate decreased by 220 bps primarily due to Fingerhut pricing adjustments and Orchard Portfolio's increased promotions utilized in Drapers retail closeout
- Sales and marketing expenses decreased by 220 bps or 7.5% due to reduced acquisition catalog volume and television spend at Fingerhut partially offset by higher catalog volume at Orchard
- Net credit expense increased by 390 bps due to higher revolving portfolio losses which continues to be impacted by greater third party general purpose credit availability and \$5.8 million increased provision on sale of PayCheck Direct customer accounts receivables sold to BGI Holding Company
- Adjusted G&A expenses decreased \$11.5 million primarily due to the reduction in force action and lower professional services in the quarter

Northstar Portfolio Q1 Performance

unaudited in 000's	Q1 2017	Q1 2016
Net sales	\$ 187,046	\$ 183,177
Net sales growth (decline) YOY	2.1%	(11.0)%
Gross margin %	42.3%	44.4%
Sales and marketing expense as a % of net sales	15.3%	20.8%
Net selling margin %	27.0%	23.6%
Net credit expense as a % of net sales	13.9%	8.7%
Contribution margin %	13.1%	14.9%
Revolving new credit accounts	90	120
Freshstart new credit accounts	54	51
Revolving active accounts	1,577	1,680

- Net sales increased 2.1% over Q1 2016
 - Net sales increased \$3.9 million compared to Q1 2016, higher sales the result of pricing adjustments, increased customer catalog response and higher website conversion rates offsetting lower sales from reduced acquisition catalog circulation as a result of tighter credit underwriting and continued negative impact of increased sub-prime credit supply
- Contribution margin down 180 bps over Q1 2016:
 - Gross margin as a percentage of net sales down 210 bps primarily due to pricing adjustments and to a lesser extent increased use of discounts
 - Sales and marketing expenses as a percentage of net sales down 550 bps as a result of lower acquisition catalog circulation and reduced television advertising
 - Net credit expense increased 520 bps primarily due to higher losses in the revolving credit portfolio

SCUSA Portfolio Performance

% of SCUSA average customer accounts receivable	Q1 2017	Q1 2016
Risk Adjusted Margin		
Net credit revenue	26.5%	28.3%
Net credit losses	19.9%	17.7%
Servicing fee	2.0%	2.0%
Cost of bank debt	3.9%	3.5%
Risk Adjusted Margin before the merchant fee	0.6%	5.1%
Merchant fee	3.2%	0.7%
Risk Adjusted Margin after the merchant fee	3.8%	5.7%
SCUSA average customer accounts receivable (in 000's)	\$ 1,421,612	\$ 1,376,587
30+ day delinquency rate	16.9%	15.9%

- SCUSA portfolio performance we believe continues to be negatively impacted by the increased supply of third party general purpose credit, increased general purpose obligations and lower payment priority results in lower sales in best risk segments and higher delinquency rates in the portfolio
- Although lowest risk segment response rates continue to be impacted by increased credit supply early reads on new vintages are demonstrating improved delinquency rates compared to last year as a result of the tighter acquisition underwriting
- Risk Adjusted Margin before the merchant fee was 0.6%, unfavorable 450 bps to Q1 2016
 - Net credit revenues of 26.5%, down 180 bps from Q1 2016 due to higher charge-offs of finance charges/fees and lower billed late fee yield
 - Net credit losses of 19.9%, increased 220 bps from Q1 2016

Orchard Portfolio Q1 Performance

unaudited in 000's	Q1 2017	Q1 2016
Net sales	\$ 245,802	\$ 249,277
Net sales decline YOY	(1.4)%	(2.1)%
Gross margin %	52.6%	55.1%
Sales and marketing expense as a % of net sales	39.4%	38.1%
Contribution margin as a % of net sales	13.2%	17.1%
New gross customers	652	701
Gross active customers	7,807	7,799

- Net sales decreased 1.4% from Q1 2016 primarily due to the exiting of the Solutions business, increased use of free shipping promotions lowering shipping revenue and higher discounts utilized in the Drapers retail closeout, product sales in the quarter were flat to last year
- Gross margin as a percentage of net sales down 250 bps due to higher use of discounts and to a lesser extent an increase in inventory obsolescence

Selected Balance Sheet and Covenant Compliance Information

unaudited in 000's, except Inventory Turnover & Lender Leverage Ratio	Q1 2017	Q1 2016
Merchandise inventories	\$ 217,964	\$ 275,587
- Inventory Turnover	3.1	3.2
Lender Leverage Ratio	3.54	4.16
- Lender Leverage Ratio required covenant amount	4.50	4.75
Liquidity	\$ 86,247	\$ 66,120
- Liquidity required covenant amount	\$ 40,000	\$ 40,000

- Inventory turnover of 3.1 in Q1 2017 decreased compared to 3.2 in Q1 2016
- Bluestem Brands was in compliance with all covenants throughout and at the end of Q1 2017
 - Lender net leverage ratio of 3.54x compared to the lender covenant requirement of 4.50x; reflects LTM Q1 2017 Lender Adjusted EBITDA of \$143.2 million compared to Lender Ratio Debt of \$506.7 million
 - Lender liquidity of \$86.3 million compared to the covenant requirement of \$40.0 million; reflects \$4.7 million of cash and \$81.6 million of revolving credit line availability

APPENDIX

Bluestem Group Q1 Results

unaudited in 000's, except per share amounts	Q1 2017	Q1 2016
Net loss	\$ (43,023)	\$ (33,756)
Basic and diluted loss per share	\$ (0.33)	\$ (0.25)
Basic and diluted weighted average shares outstanding	132,036	135,523
Bluestem Group Inc. cash and cash equivalents	\$ 115,774	\$ 179,432
Net commercial real estate assets	\$ 13,964	\$ 22,954
- Cash collected from commercial real estate assets	\$ 10,278	\$ 38,700

- The net loss for the quarter included the following one-time items:
 - Restructuring costs of \$17.0 million in Q1 2017
 - \$0.5 million loss from derivatives in our own equity in Q1 2016; there was no gain (loss) in Q1 2017 as the exercise price of the warrants became fixed during Q2 2016
- Share buyback completed in Q1 2016, resulting in decrease of weighted average shares outstanding
- BGI cash of \$115.8 million, which decreased \$97.1 million from Q4 2016
 - Commercial asset collection proceeds of \$10.3 million
 - Special dividend payment of \$0.60 per share utilizing \$80.0 million of BGI cash
 - Proceeds of \$29.5 million from the sale of PayCheck Direct accounts receivables to BGI Holding Company used to pay down debt

Bluestem Brands, Inc.

Q1 Adjusted EBITDA

unaudited in 000's	Q1 2017	Q1 2016
Net loss	\$ (30,453)	\$ (19,171)
Income tax benefit	(16,034)	(11,923)
Interest expense, net	12,865	13,523
Amortization and depreciation expense	16,801	17,318
Loss on impairment	230	—
EBITDA	\$ (16,591)	\$ (253)
Loss on servicing right	1,250	—
Stock-based compensation expense	1,234	1,280
Integration costs	—	2,069
Restructuring costs*	17,909	—
Other	1,977	570
Adjusted EBITDA	\$ 5,779	\$ 3,666
Adjusted EBITDA % of net sales	1.4%	0.9%

*Total restructuring costs for Q1 2017 was \$20.7 million comprised of \$17.9 million restructuring charges in G&A and provision for doubtful accounts and \$2.8 million non-cash charges primarily related to accelerated depreciation

Bluestem Brands, Inc.

Q1 General Administrative Expenses

unaudited in 000's	Q1 2017	Q1 2016
Compensation and benefits	\$ 39,548	\$ 43,270
Professional fees and contract labor	11,276	8,728
Rent and occupancy costs	11,843	7,223
Other	2,368	5,739
Total general and administrative expenses	\$ 65,035	\$ 64,960
Less:		
Stock-based compensation expense	1,234	1,280
Integration costs	—	2,069
Restructuring costs	12,160	—
Other	1,977	443
Adjusted general and administrative expenses	\$ 49,664	\$ 61,168
Adjusted G&A as a % of net sales	11.6%	14.3%
Capital Expenditures:		
Growth	\$ 2,766	\$ 9,380
Maintenance	\$ 1,077	\$ 4,927

- Adjusted G&A expenses down 270 bps over Q1 2016 primarily due to the reduction in force completed in the quarter resulting in \$3.4 million reduced salaries and \$3.3 million in lower bonus accrual in the period
- Q1 2017 growth capex decreased to \$2.8 million versus \$9.4 million in Q1 2016 due to the inclusion of capitalized headquarter move expenses in Q1 2016
- Q1 2017 maintenance capex was \$1.1 million, a decrease from \$4.9 million in Q1 2016 the year-over-year decrease primarily due to lower IT investments versus prior year which included investments in mobile responsiveness and new merchandising features

Bluestem Group Inc. Stockholders' Equity Table

May 5, 2017	Series A Convertible*	Common Stock	2014 Equity Incentive Plan Stock	Common Stock Warrants Stock	Total Stock, Options & Warrants
unaudited in 000's					
Total outstanding stock	1,341	132,327	17,833	9,139	160,640
Stock available for grant	—	—	5,737	—	5,737
Total stock outstanding and available for grant	1,341	132,327	23,570	9,139	166,377

* On an as converted to common stock basis

Brand Contribution Margin Trends

Northstar Portfolio	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Net sales in 000's	\$ 183,177	\$ 222,656	\$ 218,333	\$ 450,006	\$ 187,046
Gross margin %	44.4%	41.6%	38.4%	39.6%	42.3%
Advertising expense as a % of net sales	20.8%	18.5%	18.0%	11.3%	15.3%
Net credit expense as a % of net sales	8.7%	7.2%	9.9%	18.1%	13.9%
Contribution margin as a % of net sales	14.9%	15.9%	10.5%	10.3%	13.1%

Orchard Portfolio	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Net sales in 000's	\$ 249,277	\$ 226,516	\$ 218,696	\$ 250,155	\$ 245,802
Gross margin %	55.1%	54.5%	52.3%	49.7%	52.6%
Advertising expense as a % of net sales	38.1%	37.1%	40.0%	36.1%	39.4%
Contribution margin as a % of net sales	17.1%	17.4%	12.3%	13.6%	13.2%

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Basis of Presentation

Please refer to the Bluestem Group Inc.'s Q1 2017 Press Release (available at www.bluestem.com) for a description of the basis of presentation.

Definition of terms

Liquidity – represents unrestricted cash and cash equivalents as defined by our lender agreements plus availability on inventory line of credit.

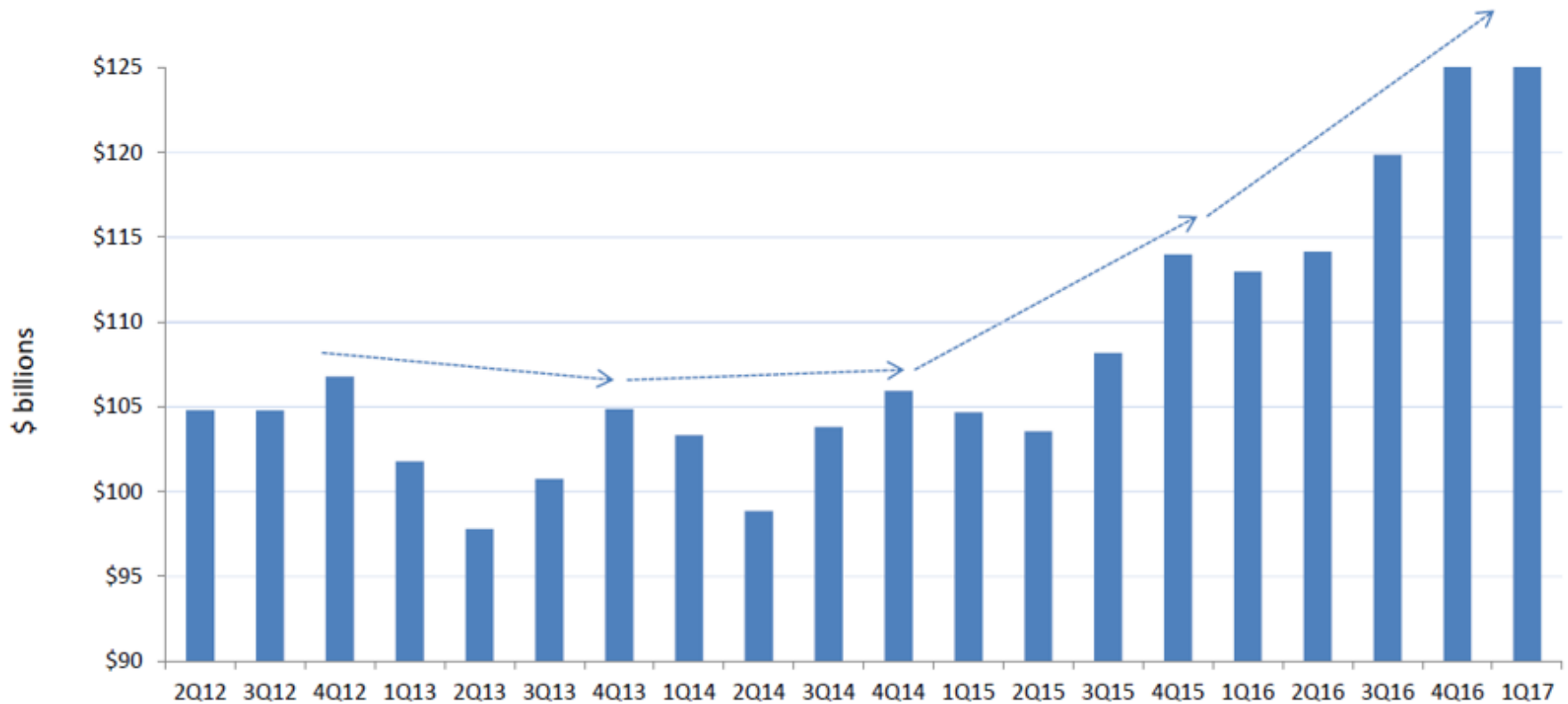
Maintenance capital expenditures – represents capital expenditures related to maintaining existing capital assets.

Growth capital expenditures – represents capital expenditures related to capital needs for continued growth.

Inventory turnover – represents the rate at which inventory turns on an annual basis calculated by averaging the monthly inventory balances and dividing by the total cost of sales for the period.

Subprime Credit Supply Continues to Grow

Subprime Credit Card Receivables of Top-7 Banks¹ (\$ Billions)



¹ Largest seven credit card issuing banks: Capital One, Chase, Citi, Synchrony, Bank of America, Discover, Wells Fargo
Amount of credit cards receivables to subprime consumers - defined as <660 FICO score

Source: Regulatory filings