

BUSINESS MODEL

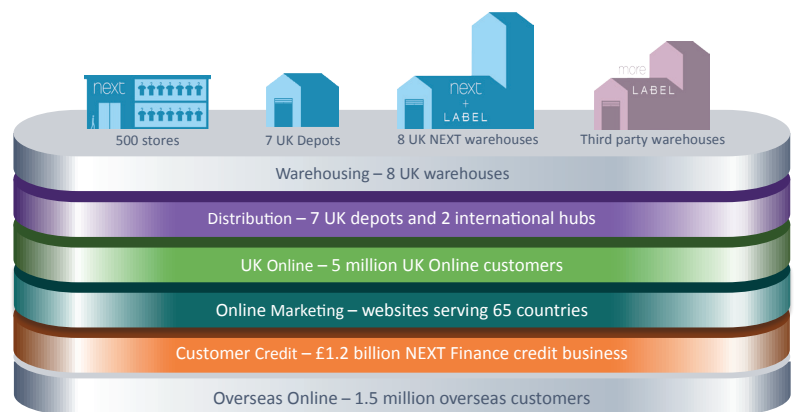
Why we are unique

Our NEXT Platform draws on all our assets – stores, warehouses, delivery networks, systems, marketing, credit facilities – to create a powerful aggregation business selling hundreds of third-party clothing and home brands alongside our own NEXT merchandise. In the UK, the scale of our Online business, supported by our store network and strong relationships with partner brands, enables NEXT to offer a broad product range to satisfy consumer demand for choice. Its importance was demonstrated this year given the enforced store closures during the COVID pandemic.

The shift to online shopping also enables NEXT to benefit from sales commission on third-party brands and sales into overseas markets without the associated retail overheads. In 2020/21, over £500m of third-party brands’ products were sold through LABEL and sales of NEXT branded products overseas also exceeded £500m.

Our platform has three very clear objectives:

- To be our customers’ first choice destination for clothing and homeware.
- To be the most profitable third-party route to market for our partner brands.
- To provide a quality of service that we and our partner brands can be proud of.



WHAT WE SELL

NEXT BRANDED PRODUCTS

- Our in-house team develop responsibly sourced NEXT branded products offering great design, quality and value for money.
- NEXT Sourcing, our Hong Kong-based international sourcing agent, competes for business with other suppliers.

LABEL

- LABEL is our online aggregation business selling over 1,000 third-party brands.

LIPSY

- Lipsy is our wholly owned subsidiary which designs and sells its own branded and other branded products.
- Aimed at a younger female demographic.
- Multi-channel; trades through NEXT Online, from 40 NEXT stores, and through wholesale and overseas franchise channels.

HOW WE ADD VALUE

More product choice

- A combination of NEXT products and over 1,000 third-party brands means customers can choose from an extensive range of clothing and homeware products.

Strong third-party LABEL relationships

- We aim to be the most profitable route to market for our third-party LABEL partners.

Responsibly sourced materials

- We source globally to deliver NEXT branded products that are responsibly sourced. We are working closely with our suppliers to fulfil our ambition to source 100% of our main raw materials through known, responsible or certified routes by 2025.

Our objectives

Our purpose is to offer beautifully designed, excellent quality clothing and homeware which are responsibly sourced and accessibly priced, and in doing so build shareholder value through long term, sustainable growth in Earnings Per Share (EPS).

We are, at heart, a fashion and homeware business with excellent operations and strong financial disciplines. We have spent years honing those skills and the supporting infrastructure. It is these qualities that we aim to leverage and develop, supported by our core principles of doing business responsibly:

1. Add value

- Use our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers cannot easily find elsewhere.
- Focus on customers' satisfaction levels by improving the customer experience in our stores and continuing to develop and enhance our Online website.

2. Play to our strengths

- Improve and develop our product ranges by using our design skills to create quality products at affordable prices.
- Increase the number of profitable Online customers and their spend, both in the UK and internationally. Our UK Online business is

complemented by our LABEL offering of branded products and the credit facility (nextpay). Our objective is to be our customers' first choice online retailer for clothing, footwear and home products.

3. Make a margin

- Achieve healthy gross and net margins through efficient product sourcing, stock management and cost control.
- Healthy margins help create stability that allows the business to withstand the vagaries of any consumer-facing business.

4. Good returns on capital invested

- Support the Group's access to low cost finance by maintaining a strong balance sheet and secure financing structure.
- Make a return on capital commensurate with risk, and using robust investment appraisal models targeting financial hurdles, including cash payback and return on capital invested.
- Maximise the profitability of retail selling space.

5. Generate and return surplus cash to shareholders

- This is done by way of share buybacks and/or special dividends.

HOW WE SELL IT

Flexible and robust infrastructure and distribution channels

- Our warehouse and logistics operations provide an efficient and agile product distribution network.
- 8 UK warehouses, 7 UK depots and 2 International hubs provide cost-effective delivery to our Online and Retail customers.

Digital marketing and websites

- Online sales of NEXT branded products are routed through our own website and third-party websites.
- Together, those websites serve 65 countries.

Well-connected store network

- Around 500 stores in the UK and Eire.
- Our stores play an important role in supporting our Online customers by facilitating the collection of orders and processing of returns.

Overseas

- 1.5 million overseas customers.
- 190 mainly franchised stores in 36 countries.
- Online orders are fulfilled from both our UK warehouses and our international hubs.

Flexible UK credit financing business

- £1.2bn of consumer credit is currently provided to customers.
- We offer a credit facility for UK NEXT Online customers called nextpay.
- We also offer next3step, a credit account which allows customers to spread the cost of orders over three months interest-free.

Cost and quality control

- Our sourcing structure provides excellent quality and accessibly priced products. It also helps maintain our margin through efficient product sourcing, stock management and cost control.

Creating value for shareholders

- We manage financial resources effectively with a strong focus on cost control and maximising shareholder value.
- NEXT is highly cash generative; after investing in the business, surplus cash is returned to shareholders.

Outstanding customer experience

- Customers can order online or in-store and choose delivery to home or store.
- Next-day delivery as standard for UK Online customers.
- We also offer a 'Collect Today' service in the UK on certain items ordered online.
- Strong supplier relationships.