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**Contacts:** Amanda James, Group Finance Director (*analyst calls*)  
**NEXT PLC**

**Tel: 0333 777 8888**

Alistair Mackinnon-Musson  
**Rowbell PR**

Email: [next@rowbellpr.com](mailto:next@rowbellpr.com)  
**Tel: 020 7717 5239**

**Photographs:** <http://www.nextplc.co.uk/media/image-gallery/campaign-images>

# next PLC

## Trading Statement – 5 January 2021

### HEADLINES

- Full price sales in the nine weeks to 26 December were down -1.1% on last year and much better than our central guidance of -8%, given in our October Trading Statement.
- After accounting for the benefit of better sales in November and December and anticipated losses from store closures in January, full year profit before tax is forecast to be **£370m<sup>1</sup>** before two additional non-recurring items.
- A non-recurring profit of +£12m from a 53rd week, along with an additional property provision of -£40m (see page 6), mean that total full year profit before tax is forecast to be **£342m**.
- Year end net debt is forecast to reduce by £487m to £625m.
- For the year ahead (**2021/22**) our central guidance, which assumes our Retail stores will be closed in February and March, is for profit before tax of **£670m**, based on full price sales being flat versus *two years ago* (i.e. 2019/20).

### FULL PRICE SALES TO 26 DECEMBER

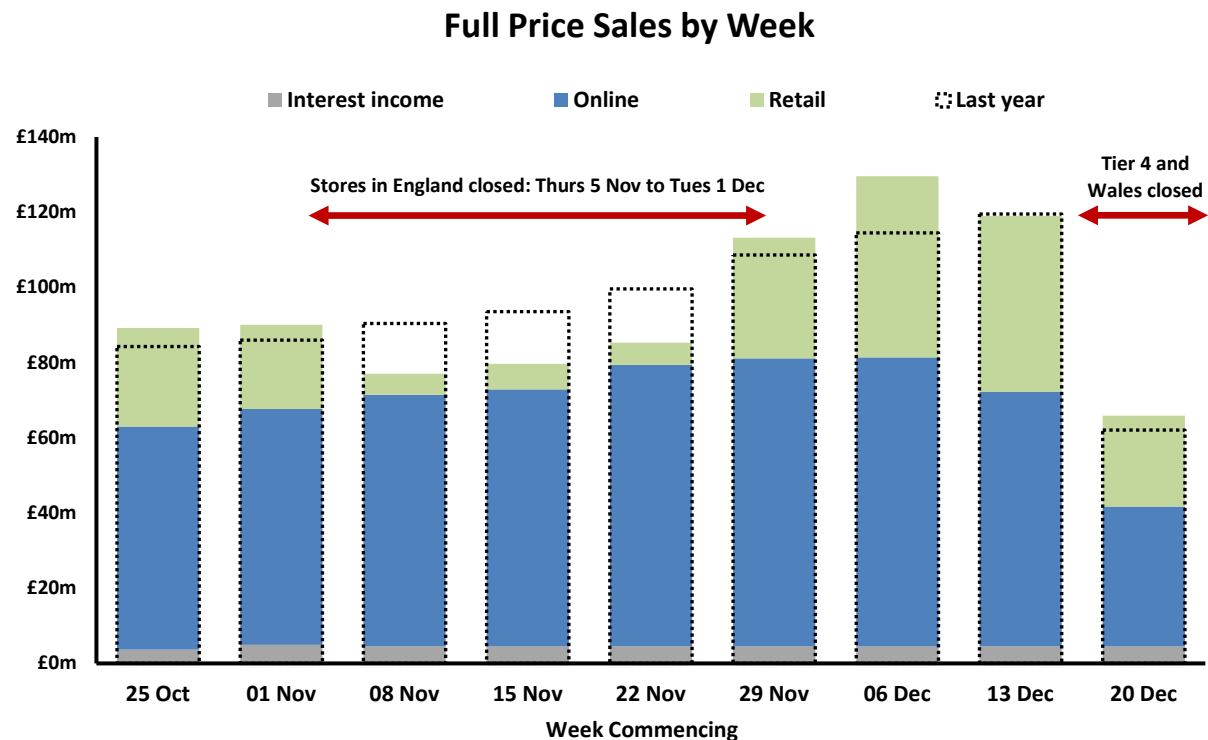
In the nine weeks to 26 December, the sales gained in our Online business compensated for almost all those lost in Retail stores, with total product full price sales down just -0.5%. The table below sets out the full price sales performance by business channel versus last year for the fourth quarter, second half and year to 26 December.

Full price sales (VAT exclusive)	Fourth quarter to 26 December	Second half to 26 December	Year to 26 December
Online UK	+36%	+30%	+9%
Online Overseas	+43%	+31%	+13%
Online total	+38%	+30%	+10%
Retail	- 43%	- 30%	- 46%
<b>Product full price sales</b>	<b>- 0.5%</b>	<b>+1.8%</b>	<b>- 16.5%</b>
Finance interest income	- 13%	- 13%	- 8%
<b>Total full price sales including interest income</b>	<b>- 1.1%</b>	<b>+0.9%</b>	<b>- 15.9%</b>

<sup>1</sup> Profit before tax is quoted on a 52-week basis. The financial information presented in this document does not reflect the impact of IFRS 16 Leases.

## Full Price Sales by Week

The chart below shows full price sales by week by sales channel. Retail sales are shown in green, Online product sales are shown in blue and interest income in grey. The dotted black line shows the total full price sales for last year.



## Product and Sales Trends

The effect of the pandemic on the shape of our business in the fourth quarter was very similar to the effect during the rest of the year. The paragraphs below set out the main points.

**Products that did well** Childrenswear, Home, Loungewear and Sportswear.

**Products that did badly** Adult clothing for work, parties, events and going out.

**Returns rates** Returns rates continued to be much lower than last year (21% compared to 36% last year). Of the 15% movement, 10% came from the change in product mix (i.e. the categories that did well have lower returns rates than those that did badly). The remaining 5% fall came from customers being more selective when placing their initial order.

**Retail Parks versus other stores** Stores located in out of town Retail Parks continued to perform around 15% better than those in city centres and shopping centres.

## Online Customers

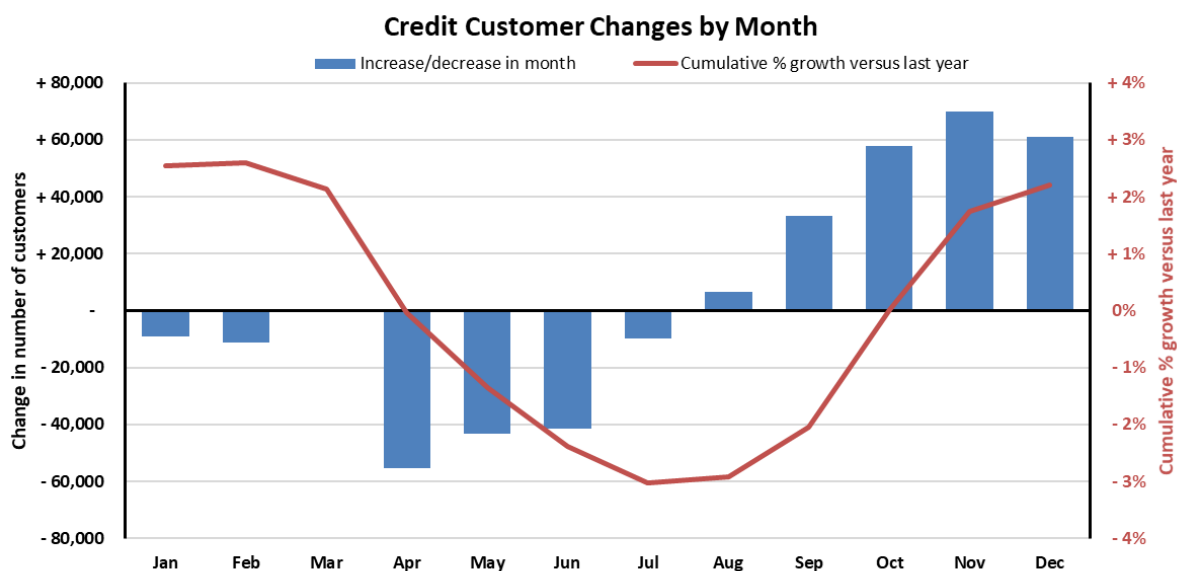
### Total Customers

The number of active customers has grown significantly during the year and, as at 26 December, our Online customer base was up 24% on last year. The growth was driven by new UK and Overseas cash customers. Cash customers are customers who do not use a NEXT credit account.

Active customers as at 26 December (m)	26 Dec 2020	26 Dec 2019	Var %
UK credit	2.71	2.65	+2.2%
UK cash	3.58	2.40	+49.3%
<b>Total UK</b>	<b>6.29</b>	<b>5.05</b>	<b>+24.6%</b>
Overseas (all overseas accounts are cash)	1.91	1.56	+22.4%
<b>Total</b>	<b>8.20</b>	<b>6.61</b>	<b>+24.1%</b>

### Credit Customers

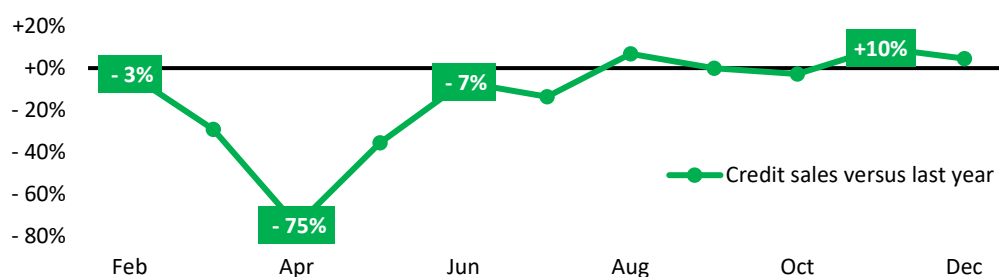
We experienced a steep reduction in the number of credit customers during the first lockdown as a result of (1) the two week closure of our website, (2) a change in product mix towards categories that attract lower levels of credit usage and (3) reduced Sale activity. During the second half, credit customers recovered and the total number is now slightly ahead of last year at +2%. The graph below shows the change in credit customer numbers by month along with the growth of the credit customer base versus last year (red line, right hand axis).



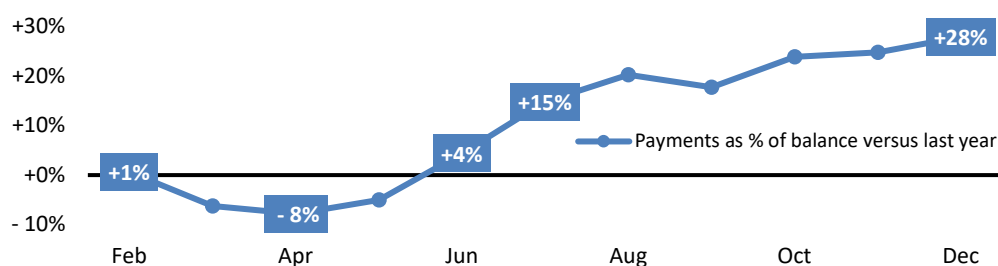
## Interest Income, Credit Sales, Payment Rates and Receivables Balance

Finance interest income fell by -13% in the nine weeks to 26 December, driven by lower average customer balances, which were down -15% on the previous year. The paragraphs below explain the changes in credit sales, payments and receivables throughout the course of the year.

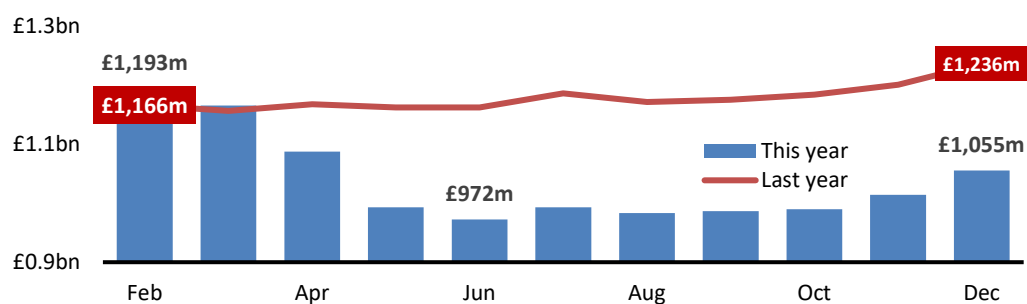
**Credit sales** The initial lockdown significantly reduced credit sales but they recovered through the second half, as shown in the following graph.



**Payments** Payment rates reduced during the first lockdown but recovered by June and have remained significantly ahead of last year throughout the second half. The following graph shows the change in monthly customer payments as a proportion of their outstanding balances, versus the previous year<sup>2</sup>. For example, in December last year customers paid off 12.2% of their balance, this year they paid 15.5%, so the proportion of balance paid increased by +28%.



**Receivable balances** Receivable balances fell significantly in the first half as credit sales declined. In the second half, the effect of increasing credit sales was partially offset by increasing payment rates.



**Default rates** Default rates continue to remain below last year and as yet, we have not seen any deterioration in the quality of our consumer debt. However, with current levels of economic uncertainty, we are maintaining the additional £20m bad debt provision that we charged in the first half.

<sup>2</sup> In calculating this measure we compare payments as a percentage of the opening receivables balance.

## End of Season Sale

Stock was well managed and surplus stock going into our end-of-season Sale was down -12% on last year. We expect clearance rates to be down -4.8%, in line with the guidance we gave in October, which anticipated lower footfall in our Retail Sale.

The closure of around 50% (by sales value) of our Retail stores limited our capacity to clear Sale stock in our traditional Boxing Day Retail Sale. To mitigate these closures, we significantly increased the amount of Retail Sale stock available to order in our Online Sale. We now estimate that we will clear around 25% of our Retail Sale stock through Online sales. However, the cost of clearing stock will be £5m higher than anticipated as the marginal cost of clearing stock Online is higher than in Retail stores.

## FULL PRICE SALES, PROFIT AND CASH GUIDANCE FOR THE CURRENT FINANCIAL YEAR

Profit gained from the overperformance in November and December has been almost entirely offset by:

- The anticipated loss of full price Retail sales in January due to the lockdown closure of 90% of our stores (by value).
- The additional costs we have incurred clearing more of our Retail end-of-season Sale stock Online.

For the purposes of this estimate we have assumed that 50% of the lost Retail sales in January are recouped Online. This would result in total full price sales in January being down **-14%**. We now expect total full price sales (including interest income), for the full year (2020/21), to be down **-16%**.

There are two additional non-recurring items that need to be accounted for. This year is a 53-week year which will add an estimated £12m to profit. In addition, we have decided to take further property provisions of £40m (see explanatory paragraph below). So overall our new central guidance for full year profit before tax is £342m.

The table below walks profit forward from our October central scenario and demonstrates how we have arrived at our latest guidance.

Full year estimate to January 2021	Profit walk forward
Previous guidance given in October central scenario	<b>£365m</b>
Additional profit from full price sales beat (-1% vs -8%)	+£28m
Profit before tax before effects of post-Christmas lockdown	<b>£393m</b>
Additional costs of end-of-season Sale	- £5m
Loss of profit from lost January sales	- £18m
<b>52-week profit before tax</b>	<b>£370m</b>
Profit from 53rd week	+£12m
Estimated increase in Retail property provisions	- £40m
<b>53-week profit before tax</b>	<b>£342m</b>
Reduction in year end net debt	£487m
Year end net debt	£625m

### *Estimated Increase in Retail Property Provisions*

We have reviewed the level of provisions that we hold for store impairment and onerous leases. In previous years, we assumed that store sales would decline for one more year and remain flat thereafter. We now believe this is overly optimistic and we are forecasting annual like-for-like sales declines for the foreseeable future. So we are now providing for store-level losses in shops that we believe will become unprofitable at any point up to the end of their leases.

Subject to final confirmation with our auditors, we estimate that our property provisions will increase by circa £40m compared with our October central scenario. This will bring our total property provisions in the year to just under £100m. This provision will be a non-recurring, non-cash cost. For the full effect of all non-recurring costs in the year please see Appendix 1.

## OUTLOOK FOR SALES AND PROFIT IN THE YEAR AHEAD

The continued uncertainty caused by the COVID pandemic, and its potential economic impact, mean that it is harder than ever to predict sales and profits for the year ahead. So the guidance ranges we are giving for the coming year are wider than usual, but at least give shareholders an understanding of how the profits of the business would respond to different levels of sales growth.

In addition to the closure of shops, the pandemic has adversely affected the flow of container traffic from the Far East. At present many of our deliveries are running two to three weeks late and we expect this level of disruption to continue into the new year. Our stock levels are currently down -10% versus two years ago (January 2019). We expect stock levels to steadily improve and return to more normal levels by the end of March.

### Full Price Sales and Profit Guidance for the Year Ahead

The table below sets out three full price sales and profit scenarios for the year ahead. The central scenario assumes that all our stores will remain closed for the first eight weeks of the financial year (i.e. until the last week of March). We have assumed that 50% of the lost Retail sales will be recouped Online. Within our central scenario, we believe that the loss of sales from the closure of stores in February and March (net of the gain in our Online business) will reduce profit by around £40m.

Please note that next year's guidance is given relative to **two years ago** (2019/20), providing a more meaningful comparison than the current, COVID stricken, financial year.

	<b>Upside</b>	<b>Central scenario</b>	<b>Downside</b>
Versus year ended January 2020	Sales exceed our expectations throughout the year	Some disruption in the 1st half, recovering in the 2nd half	Significant disruption in 1st half and subdued sales throughout the year
First half sales	+2%	- 3%	- 7%
Second half sales	+6%	+3%	+0%
<b>Full year sales</b>	<b>+4%</b>	<b>+ 0%</b>	<b>- 3.5%</b>
<b>Profit before tax</b>	<b>£735m</b>	<b>£670m</b>	<b>£600m</b>

## BREXIT

We have not experienced any disruption as a result of Brexit and all our new systems required for Brexit have been implemented and are now operational. We do not anticipate that Brexit will have a material impact on our ability to import and export stock in the year ahead.

Following the announcement of the free trade deal between the UK and EU, we do not anticipate any increase in customs duty costs in the year ahead.

## FULL YEAR RESULTS ANNOUNCEMENT

We are scheduled to announce our results for the full year ending January 2021 on Thursday 1 April 2021.

**Forward Looking Statements**

Certain statements in this Trading Update are forward looking statements. These statements may contain the words “anticipate”, “believe”, “intend”, “aim”, “expects”, “will”, or words of similar meaning. By their nature, forward looking statements involve risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. As such, undue reliance should not be placed on forward looking statements. Except as required by applicable law or regulation, NEXT plc disclaims any obligation or undertaking to update these statements to reflect events occurring after the date these statements were published.



## Appendix 1: Non-Recurring Profit and Loss Items

In the table below we have set out the significant, non-recurring profit and loss items that are included within this year's profit forecast.

In total, on a 52-week basis, non-recurring items are expected to reduce profit by -£22m. After accounting for the additional profit generated from the 53rd week, profit is expected to reduce by -£10m.

Full year profit impact £m (e)	New central guidance
Business rates reduction	+80
Property profit from the sale and leaseback of properties	+44
<b>Subtotal: Benefits to profit</b>	<b>+124</b>
Property provisions for store impairment and onerous leases	- 97
Stock and fabric provisions	- 29
Bad debt provisions	- 20
<b>Subtotal: Costs to profit</b>	<b>- 146</b>
<b>Total profit impact from non-recurring items (52 weeks)</b>	<b>- 22</b>
Profit from 53rd week	+12
<b>Total profit impact from non-recurring items (53 weeks)</b>	<b>- 10</b>