

# NEXT

## Trading Statement – 5 January 2023

### SUMMARY

Sales in the Christmas period have been better than we anticipated.

- In the nine weeks to 30 December full price sales<sup>1</sup> were up **+4.8%** versus last year. This was c.£66m better than our previous guidance of -2.0% for the period.
- We have increased our full year profit before tax guidance by £20m to **£860m**, up +4.5% versus last year.
- Based on this profit guidance, Earnings Per Share (EPS) would be **567.2p**, up +6.9% versus last year.
- We remain cautious in our outlook for the year ahead. Initial guidance for the year ending January 2024 is for full price sales to be down **-1.5%** and profit before tax to be **£795m**, down -7.6% versus the current year.

This statement is divided into two parts. **Part One** focuses on the current year, **Part Two** gives sales and profit guidance for the year ahead.

### PART 1: THE CURRENT YEAR

#### Full Price Sales to 30 December 2022

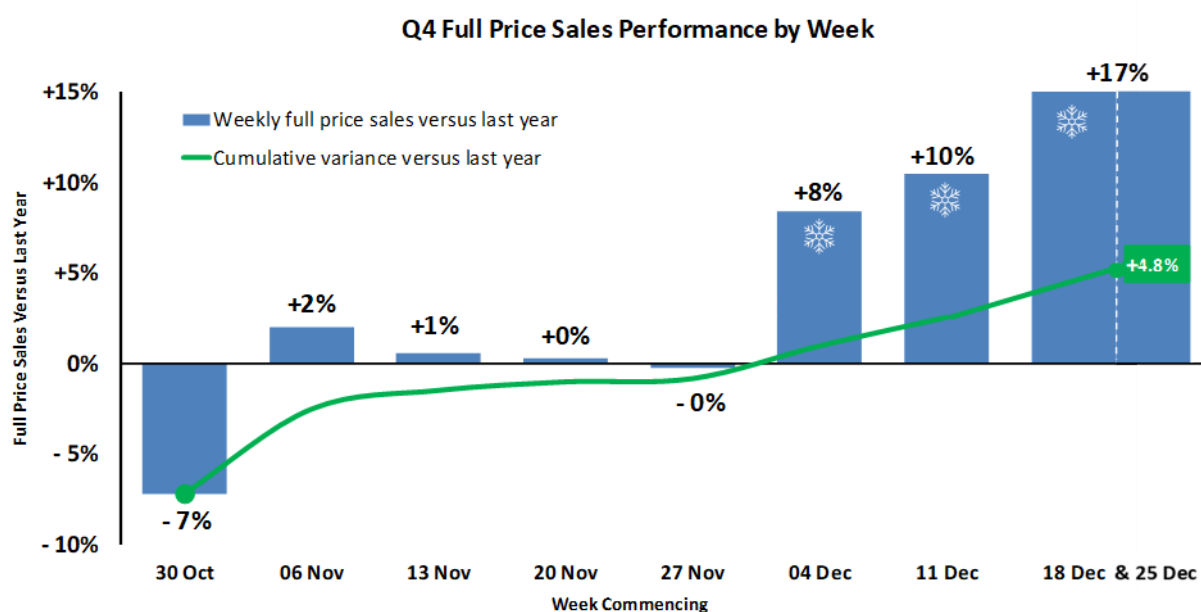
The table below sets out the full price sales performance for the nine weeks to 30 December and for the second half to 30 December.

Both Online and Retail exceeded our full price sales expectations, with Retail being particularly strong. We think that we underestimated the negative effect COVID was having on our Retail sales *last year*. We may have also underestimated the effect improved stock levels would have on both businesses (stock levels were exceptionally low last year as a result of widespread supply chain disruption).

Full price sales (VAT exclusive) versus 2021	Q4 to 30 December	Second half to 30 December
Online	+0.2%	- 0.9%
Retail	+12.5%	+7.5%
<b>Total Product full price sales</b>	<b>+4.7%</b>	<b>+2.2%</b>
Finance interest income	+5.8%	+7.9%
<b>Total full price sales including interest income</b>	<b>+4.8%</b>	<b>+2.5%</b>

The chart below sets out the Q4 weekly performance versus last year. The green line gives the cumulative performance for the quarter. The graph demonstrates the dramatic boost to sales we experienced when the weather turned cold in December (please note: we have combined the last two weeks of the period in the graph to eliminate the effect of the timing of Christmas Day and bank holidays). We believe that the strength of demand for cold weather products in December was partly a result of pent-up demand from an unusually warm October and November.

<sup>1</sup> Full price sales are total sales excluding VAT, less items sold in our Sale events, our Clearance operations and through Total Platform. These are not statutory sales. For clarity, the sales reported in this Trading Statement also exclude Joules, in which we acquired a 74% equity stake during November 2022.



## End-of-Season Sale

The end-of-season Sale is progressing well and clearance rates are ahead of our expectations.

Markdown stock and sales were much higher than last year, mainly as a result of the exceptionally low surplus stock levels last year. The table below sets out our stock for Sale versus last year and three years ago. For comparison we have also shown the full price sales growth for the comparable period. It can be seen that growth in Sale stock versus three years ago is more in line with the increase in sales, though still somewhat higher than our ideal. We are planning for this overstock to be corrected in the year ahead.

	Versus last year	Versus three years ago
<b>SALE STOCK</b>	+60%	+31%
<b>Full price SALES Q4 to 30 Dec</b>	+4.8%	+24%

## Sales and Profit Guidance for the Current Year

We have increased our pre-tax profit guidance for the full year by +£20m to £860m reflecting better than expected full price sales in the period. This forecast is based on full price sales in January being broadly flat versus last year. Our revised guidance is set out below, along with our previous guidance given in November.

Guidance for the full year 2022/23	Full year guidance	Versus 2021/22	November guidance	Versus 2021/22
Full year full price sales	£4.6bn	+6.9%	£4.5bn	+5.2%
Group profit before tax	£860m	+4.5%	£840m	+2.1%
Earnings Per Share (Basic)	567.2p	+6.9%	554.5p	+4.5%

NOTE: Our current guidance is almost exactly in line with the sales and profit guidance we gave in January 2022. At that time, our forecast was considered by many to be overly cautious, it now appears it was very realistic. We mention this only because we are concerned some might look at our forecast for 2023 and again assume we are being over cautious.

## PART 2: THE YEAR AHEAD

### Full Price Sales Forecast

Forecasting for the year ahead at this early stage comes with a high level of uncertainty. We have assumed that full price sales for the year ending January 2024 will be **down -1.5%** against the current year. Underlying product sales are expected to be down -2.2%. Interest income, from our consumer Finance business, is expected to contribute +0.7% growth to sales. This is mainly as a result of consumer balances continuing their return to pre-pandemic levels.

Some might think this forecast is overly cautious in the context of our performance in the second half of this year. However, we believe that the following factors are likely to dampen demand:

- Inflation in essential goods, particularly energy
- Rising mortgage costs as consumers' fixed interest rate deals expire
- Continued price inflation in our own products (see below)

On a more positive note, we expect employment to remain strong so are not anticipating a collapse in demand or any increase in bad debt over and above our current provisions.

### Price Inflation

#### Outlook for Cost Price Inflation

We now expect the cost price inflation on like-for-like goods to peak at around 8% in the Spring Summer season. However, we expect inflation to be no more than 6% in the second half. This Autumn Winter figure is only an estimate at this stage, as we are still negotiating prices; but it does appear that cost pressures are now easing through a combination of reducing freight costs and lower factory gate (dollar) prices.

Factory gate prices for the second half are benefiting from:

- The decline in the price of key **commodities**, for example, cotton and polyester.
- Increasing **factory capacities** resulting from a slowdown in global demand. (Even if consumers maintain their cash spending, inflation in selling prices will reduce the amount of units they buy, thus reducing factory production.)
- **New sources** of supply.
- The devaluation of *some* **local currencies** against the dollar.

Much of the increase in next year's prices are the result of the devaluation of the pound against the dollar. Eighty percent of our contracts are negotiated in dollars so the devaluation of the pound has had a significant impact on our prices. The table below sets out the dollar rates we achieved this year and those we have locked in for the year ahead, along with the increase in the cost of dollars.

	Costing rate (£/\$) 2023/24	Costing rate (£/\$) 2022/23
Spring Summer	1.27	1.39 <sup>2</sup>
Autumn Winter	1.14	1.36

Looking further ahead, it appears likely that the recovery of the pound against the dollar (if it persists) and continuing downward pressure on factory gate prices, means that inflation is likely to be lower again in the Spring of 2024.

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<sup>2</sup> Please note that this number differs from the 1.37 quoted in the analysts presentation in September 2022. The 1.39 is the correct final number.

### *Selling Prices*

We intend to maintain our bought-in<sup>3</sup> gross margin percentage. So inflation in our *like-for-like* selling prices will be broadly in line with the increase in cost prices as set out in the table below:

	Spring & Summer 2023/24	Autumn & Winter 2023/24
Selling price inflation in like-for-like goods (e)	+8%	+6%

### *UK Cost Base Inflation*

In addition to the increases in the cost of our goods, we are also experiencing increases in UK operating costs, mainly as a result of UK wage inflation and energy costs. We have fully bought our electricity requirement for the year ending January 2024 at rates significantly higher than the current year.

## **Profit Guidance for the Year Ahead**

### *Profit Walk Forward from 2022/23 to 2023/24*

The main changes in profit between the current financial year and next year are summarised below:

		£m
<b>Profit before tax 2022/23 (e)</b>		<b>860</b>
Loss of profit from -1.5% (£69m) decline in full price sales		<b>- 23</b>
<b>Cost increases</b>		
Wage inflation (including third-party wages, e.g. couriers)	- 67	
Electricity and gas	- 28	
Spend on Technology	- 18	
Other	- 6	
<b>Total cost increases</b>		<b>- 119</b>
<b>Cost savings</b>		
Operational savings from a reduction in units sold	+30	
Occupancy cost savings (inc. £10m Business Rates)	+22	
Markdown and clearance	+25	
<b>Total cost savings</b>		<b>+77</b>
<b>Profit before tax 2023/24 (e)</b>		<b>795</b>

<sup>3</sup> The difference between the landed cost price of our goods and their original (full price) selling price (VAT ex.).

## Buybacks, Corporation Tax and Earnings Per Share Guidance

For the purpose of this guidance we have estimated that, after paying ordinary dividends, we will return £220m of surplus cash<sup>4</sup> to shareholders by way of share buybacks in the year ahead (though this figure will be lower if we make further investments). We estimate that these buybacks, along with those in the current year, will boost pre-tax Earnings Per Share by +2.7%. However, this enhancement is more than offset by the increase in the Corporation Tax rate, which reduces EPS by -6.8%.

Our guidance for sales, profit, pre-tax EPS and post-tax EPS along with our expected effective tax rates are set out in the table below:

Guidance for the full year 2023/24	Full year guidance	Versus 2022/23
Full year full price sales	£4.5bn	- 1.5%
Group profit before tax	£795m	- 7.6%
Pre-Tax Earnings Per Share (Basic)	659.3p	- 4.9%
Effective tax rate (new 25% rate effective from April)	24.0%	up from 18.2%
Post Tax Earnings Per Share (Basic)	501.0p	- 11.7%

## FULL YEAR RESULTS ANNOUNCEMENT

We are scheduled to announce our results for the full year ending January 2023 on Wednesday 29 March 2023.

### 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.

**Date:** Embargoed until 07:00 hrs, Thursday 5 January 2023  
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**Photographs:** <https://www.nextplc.co.uk/media/image-gallery/campaign-images>

<sup>4</sup> Surplus cash refers to cash flow after ordinary dividends, interest, tax, capex and funding any increase in our customer receivables.