

FULL YEAR RESULTS

Full year results

- Group revenues increased to £3,406m
- Group profit before tax up 18% to £505m
- Earnings per share up 21% to 188.5p
- Total dividend increased 20% to 66p, covered 2.8 times
- Cash inflow of £331m, before share buybacks
- Net debt reduced to £400m, committed debt facilities of £800m

Chairman's Statement

The year to January 2010 was an exceptional year for Next, with growth in earnings per share of 21% to a new record for the Group of 188.5p.

It was an extraordinary year. At the beginning of the year we faced an unstable economy, falling sales and Sterling weakness against both the US Dollar and the Euro, our main purchasing currencies. In the event the consumer economy has been relatively stable. The efforts of our buying teams and the support of our suppliers have helped us hold prices and increase revenues. In addition, the strengths which I outlined in my statement last year, particularly the strength of our management team, have enabled us to contain costs, improve our products and continue to invest in our business.

Our cash generation remained robust, allowing us to increase our proposed full year dividend by 20% to 66p, buy back £120 million of our shares and reduce net debt by over £200 million to £400 million. This leaves the Group in a very strong financial position.

We will continue to expand our store portfolio, particularly our new Home stores which have proved to be a great success this year. We have revamped our UK website and are now trading online in 35 countries outside of the UK. However, our main strategy of investing in the Next brand and improving and extending our product ranges will remain our focus for the foreseeable future.

Nick Brookes, having joined the Board in 2003, is stepping down at the AGM in May and I would like to thank him for his contribution over the last seven years. We will be appointing a new non-executive director after the AGM and a further announcement will be made in due course.

Much of what we have achieved this year is due to the commitment and hard work of all our employees. These results are a testimony to their success. I would like to thank them all for the contribution they have made.

We remain confident that our operating model and financial strength position us well to make further progress in uncertain times.

John Barton

Chairman

Chief Executive's Review

OVERVIEW

Next's financial objective is clear and consistent, it is to deliver sustainable long term growth in earnings per share. For the year ending January 2010 EPS increased by 21%, with profit before tax increasing by 18% to £505m. Cash flow has been strong and is likely to remain so. We propose to pay a final dividend of 47p which will take the growth in our annual dividend to 20%.

During the year we have made good progress in improving and developing our product ranges, expanding our store portfolio, refitting our stores, developing our online business and controlling costs. We believe the Next Brand has emerged from recession in better shape than it entered, and is well placed to make progress in what we anticipate will be another challenging year.

A Year of Profit Upgrades

During the course of last year we raised our profit guidance several times. At the beginning of the year, at the height of the financial crisis, we felt that we would be unlikely to maintain group profit at the previous year's level. There are four reasons for the significant improvement in our performance, one is external and three are internal.

External Factor - Economy

The recession did not impact consumer spending by as much as most people expected. Employment only decreased by 1.8% (circa 500,000) despite unemployment rising by circa 900,000. The modest drop in employment combined with increased state benefit payments and lower interest rates meant that overall UK disposable income actually increased in 2009, with consumption remaining broadly flat.

Internal Factors

We believe there has been a marked improvement in our ranges; in particular we have been much faster to adopt new trends.

We were able to recover more of the decline in the value of Sterling from our supply base than expected. Therefore, bought in gross margins did not decrease nearly as much as anticipated. We had underestimated the extent to which new sources of supply would be able to improve cost prices and the extent to which our existing manufacturers' dollar cost base would decrease.

We also exceeded our targets for cost savings across the Group.

Long Term View

Next delivered full price like for like sales growth after four years of negative like for likes and we believe this is a reflection of the work done to revitalise the Brand over the last three years. It is, however, worth reflecting that even during the period of negative like for likes we continued to deliver growth in sales and profit. This growth has come from new Retail space and the Directory business. In fact since 2005 our earnings per share have grown by 57%.

	Revenue excluding VAT		Profit & Earnings per share		
	2010	2009	2010	2009	
	£m	£m	£m	£m	
Next Retail	2,274.2	2,197.9	324.0	288.8	
Next Directory	873.2	816.4	183.6	157.6	
Next International	64.2	68.6	1.2	9.0	
Next Sourcing	3.5	5.9	35.7	32.0	
The Next Brand	3,215.1	3,088.8	544.5	487.4	+11.7%
Ventura	145.6	161.9	6.0	5.1	
Other activities	45.8	20.8	(12.0)	(2.0)	
Share option charge	-	-	(9.4)	(8.9)	
Unrealised exchange gain/(loss)	-	-	0.7	(3.3)	
Revenue & operating profit	3,406.5	3,271.5	529.8	478.3	+10.8%
Net interest expense			(24.5)	(49.5)	
Profit before tax			505.3	428.8	+17.8%
Taxation			(141.3)	(126.5)	
Profit after tax			364.0	302.3	+20.4%

Basic earnings per share	188.5p	156.0p	+20.8%
Dividends per share	66.0p	55.0p	+20.0%

Product Development

We have improved the fashion content of our ranges, in particular we have continued to increase the speed at which we incorporate new trends and the depth in which we buy them. This process has been more about reducing the time from concept to order, than reducing supplier lead times. We still have further to go in developing quick response suppliers, both in Europe and by air-freight from the Far East.

In the year ahead we will focus on getting the latest looks into the Directory. We will reduce the lead time of catalogue production and make better use of the internet to allow customers to purchase online late additions to the Retail range.

Next Home continues to be the biggest opportunity for us to gain market share and we have made good progress in developing a stand alone offer. Next Home now has critical mass as a destination for home products. We are also looking at other smaller product opportunities, for example, we have developed our own NX sports brand to sit alongside established sportswear brands in the Directory and in selected Next stores.

NEXT RETAIL

Retail Sales

Retail sales finished the full year +3.5% ahead of last year, however, this includes a 53rd week of sales and the 52 week comparison would have been +2.0%.

Full price like for like sales for the 52 week period were 0.5% ahead of last year. Many retailers choose to include their direct sales within their like for like sales figure, the equivalent figure for Next would have been +1.7%.

As a result of effective stock control 16% less stock went into the end of season Sales. A reconciliation of full price like for like sales and total sales is set out in the table below:

52 week full price LFL	+0.5%
Net sales from new space	<u>+3.2%</u>
52 weeks full price sales	+3.7%
Additional week	+1.5%
Markdowns	<u>- 1.7%</u>
Total 53 week sales	<u>+3.5%</u>

New Space and Refits

We increased trading space by 257,000 square feet in the year, increasing our portfolio to 517 stores. The payback on net capital invested in new space is forecast to be 13 months. The net store contribution is forecast to be 21%. These forecasts are comfortably ahead of our financial hurdles of 24 months payback and 15% contribution. We opened 9 Home stand alone stores, taking our total out of town Home stores to 18. These stores are making a contribution of 19% and will pay back the capital invested in 14 months.

We expect to open a total of 340,000 square feet in the year ahead. Included in this number is 150,000 square feet in 12 new Home stand alone stores.

During the year we opened 5 trial Sports Departments in existing Next stores. These departments incorporate non-Next branded sportswear such as Adidas and Puma alongside our own NX Sport brand. This trial has been successful and we plan to open a further 17 Sports Departments in the first half of this year, with more to follow in the second half.

We continue to invest in improving our stores. During the year we spent £26m refitting and £7m extending our stores, this year we intend to spend a further £18m on cosmetic refits, £6m on new sports and shoe departments and £17m on extensions. Three years ago we started a programme to reinvigorate the look and feel of our stores, the vast majority of which are now in keeping with our brand. We expect that a capital investment of £20m per annum will be required to maintain the image of our stores.

Retail Profit

Retail profit increased by +12.2% and net margin increased by +1.1%.

The weakness of Sterling was an enormous challenge to margins. The average rate at which we acquired US Dollars declined by 35 cents and if we had paid the same dollar prices for our merchandise our bought in gross margin would have been reduced by -5%.

However, we were able to contain the drop in bought in gross margin to just -0.4%. Lower cost prices were achieved by moving to new sources of supply and negotiating better terms with existing suppliers, many of whom were able to pass on the benefits of lower dollar input costs. Lower VAT, significant freight savings and reduced fabric wastage also mitigated the currency weakness. The first table below sets out the detail of the change in achieved gross margin. The second table shows the walk forward from last year's operating margin to this year's result. The figures show the change as a percentage of sales for each of our major heads of cost:

Currency rate	- 5.0%
Lower dollar prices from suppliers	+3.7%
VAT reduction	+0.5%
Lower freight and fabric charges	+0.4%
Total change to bought in gross margin	-0.4%
Net operating margin last year	13.1%
Reduction in bought in gross margin	- 0.4%
Reduction in markdown	+1.4%
Increase in achieved gross margin	+1.0%
Change in store payroll	0.0%
Reduction in branch occupancy costs	+0.3%
Reduction in warehousing & distribution costs	+0.5%
Increase in other central overheads	- 0.7%
Net operating margin this year	14.2%

Reduced markdown improved margin by +1.4%. We marked down 16% less stock in our mainline stores (at original retail selling value) and improved the sell through in our clearance stores. This reduction was partly as a result of improved stock control but also as a result of us significantly beating our initial sales budgets. We do not anticipate there will be the same opportunity to save further markdown in the year ahead.

Store wages were flat as a percentage of sales, despite a 1% annual pay award, increased premiums for working on Boxing Day and higher staff bonus payments. This was achieved as a result of improvements to the way we schedule the hours worked in our stores. In the year ahead we again expect savings in worked hours to offset wage increases.

Occupancy costs decreased as a percentage of sales and improved margin by +0.3%, this was largely the result of lower energy costs. In those stores that had a review, rent increased on a compound annual basis by 3.8%. This increase was partially offset as a result of disputed rents being settled at lower levels than originally reserved.

Warehousing and distribution cost savings improved margin by 0.5%. The largest cost reduction was due to lower charges for processing Sale stock with the balance achieved through numerous other efficiency projects.

Central overheads eroded margin by -0.7%. This was mainly due to increased staff incentives and a charge for sponsoring the 2012 Olympic Games.

NEXT DIRECTORY

Directory Sales

Directory sales finished the year up +7.0% (+5.0% on a 52 week basis). Growth was achieved through a 3.6% increase in the average number of active customers and a small 0.2% increase in pages. The internet continues to be very important to the development of the Directory and now accounts for 70% of our orders.

Directory Profit

Directory profit was up +16.4% on last year. The margin movement is detailed below; the figures show the change as a percentage of sales for each of our major heads of cost:

Net operating margin last year		19.3%
Reduction in bought in gross margin	- 0.4%	
Reduction in markdown	+0.9%	
Increase in achieved gross margin		+0.5%
Improvement in bad debt		+0.7%
Service charge income		- 0.3%
Decrease in warehouse and distribution costs		+1.0%
Decrease in marketing and book creation		+0.7%
Increase in other central overheads		- 0.9%
Net operating margin this year		21.0%

The bought in gross margin decreased by -0.4%, in line with Retail and for the same reasons. Directory generated 13% less markdown stock which increased margin by +0.9%. Achieved gross margin increased by +0.5%.

Bad debt improved against a very difficult period last year. Service charge income did not grow as fast as sales and as a result margin was eroded by -0.3%.

Warehousing and distribution costs improved margin by 1.0%. Delivery charge revenue was up by £3.5m as customers placed smaller orders more often. The balance of the improvement came from numerous small cost saving initiatives.

We achieved efficiencies in book distribution and customer recruitment which gave a margin improvement of +0.7%. An increase in central overheads eroded margin by -0.9%, mainly due to increased staff incentives and Olympic sponsorship.

INTERNATIONAL

Change in Direction

We have changed our approach to International trading and this change is reflected in these results, which include a number of one off charges. We are moving our focus away from wholly owned international stores to direct sales over the internet.

The internet allows us to serve a customer base which is dispersed over a large area without the need to take on fixed assets and stock holdings in numerous locations. Whilst in any one town or city there may not be enough Next customers to justify the investment in a store, there are enough customers in a whole country to justify the investment required for us to trade online.

We are now serving customers in 35 overseas countries through our international website NextDirect.com. Stock is held, picked and packed in our UK warehouses. We are using a number of different third parties to deliver from our warehouses to overseas customers. We charge €5 to deliver to mainland Europe within seven working days. We are now able to deliver to the USA in two business days and charge US\$10 per order.

To date our focus has been on establishing reliable overseas operations and we have not as yet spent significant time or money on marketing. In the year ahead we will test and develop marketing methods overseas, with trials having just started in the USA. We anticipate that over the next twelve months our International website turnover will be circa £7m, generating a profit of £1.4m.

We have 14 owned stores in Central Europe, 5 in Northern Europe and 4 in China. We do not anticipate any new stores in Northern Europe and will keep the existing sites under review. We have taken a provision against certain store assets, incurring a one off charge of £3.3m. We will continue to trade our Central European stores, and expect to expand slowly in the region. However we have taken a full impairment charge of £1.6m against the goodwill acquired with the Czech operations two years ago.

International Sales and Profits

Many of the overseas markets in which we trade have been affected by the world wide recession. International sales have been difficult with sales in our franchise stores being down -7% on a like for like basis. The Czech Republic was particularly difficult and sales in our directly owned Central European stores were down -14%. Reported International profits were down from £9m to £1.2m, however, underlying profits were £6.1m prior to one off charges of £4.9m.

The table below sets out the trading profits of our International retail business and NextDirect.com, the latter is reported within Directory. Also shown is our forecast for the year ahead.

	Trading Profit £m 2010	One Off Charges £m 2010	Total Profit £m 2010	Budget Profit £m 2011 (e)
International	6.1	(4.9)	1.2	6.0
NextDirect.com	0.8	(1.3)	(0.5)	1.4
Total	6.9	(6.2)	0.7	7.4

NEXT SOURCING (NSL)

NSL recorded an increase in profit to £35.7m, this included £5m improvement from translating its US Dollar profits into Sterling and £2m from an over provision of profit share in previous years. Dollar operating profits actually reduced as NSL had to contend with lower dollar garment prices and therefore lower commission income, along with stronger competition for Next's business from third party suppliers.

NSL faces a challenging year with continued competition from external suppliers and general pressure on supplier margins. As a result of these pressures we expect NSL to report profits in the region of £30m for the current year.

VENTURA

The year finished well and Ventura achieved a profit of £6m against £5m last year. Second half sales were steady, with new business offsetting the activities which are no longer performed. Further business has been won with new clients, which will start contributing in the current year. Our wholly owned call centre in India has achieved significant wins with non-UK clients and we expect it to be operating at almost full capacity by the end of this year.

We believe that turnover is now stable and that both sales and profits will increase in the year ahead.

OTHER ACTIVITIES

The Other Activities charge of £12m includes £6m for share based incentive schemes, compared to a £1m credit last year. Volatility in the Next share price over the past two years has resulted in significant changes to the provisions required. As expected, the £10m unrealised foreign exchange loss booked in the first half reversed in the second half, resulting in a net gain of £1m.

Also included here is our young female fashion brand, Lipsy. We have now owned this wholesale, retail and internet business for a full year and are pleased with progress to date. Lipsy made an operating profit before amortisation of £1m on sales of £28m. In the current year we expect to open 11 new stores and anticipate profits of circa £3m before amortisation of £1m.

INTEREST AND TAX

The interest charge for the year halved to £25m, due to both lower borrowings and lower interest rates. We expect a similar charge for the current year on debt which we estimate will average £500m after taking into account share buybacks completed to date. Our average cost of debt is 5%, based on £505m of fixed rate bonds and interest rate swaps.

Our tax rate this year at 28% was slightly lower than anticipated and last year, the main factor was deferred tax adjustments on share option schemes. We expect our tax rate for the year ahead will be no higher than this year.

BALANCE SHEET AND CASH FLOW

In the year the group generated £331m of cash flow before share buybacks but after interest, tax and dividend payments.

Capital expenditure for the year amounted to £99m and we are planning for £121m in the current year, broadly in line with underlying depreciation. Stock levels were well controlled throughout the year and finished £10m down in value. Directory debtor balances rose by £23m to £484m. We have retained robust provisions against potential defaults and are more comfortable with the consumer debt environment than we were a year ago.

Net debt at the year end was down £229m to £400m. This is comfortably financed by £505m of bonds maturing in 2013 and 2016. In addition to this we have £295m of bank facilities committed until 2013.

We believe that Next is likely to continue to generate cash flow well in excess of that which is required to fund growth in the business. We currently estimate we will generate around £175m of cash in the current year, after paying tax and dividends but before share buybacks.

SHARE BUYBACKS

We have continued our longstanding strategy of using surplus cash to buy back Next shares. During the year we acquired 5.9m shares (3% of those in issue at the start of the year) at a cost of £120m. Since the year end we have purchased a further 3.6m shares at a cost of £70m.

It is our intention to maintain an investment grade credit rating and we will not allow buybacks to constrain investment in the core business. Given these principles and subject to market conditions we intend to continue buying back shares in the current year. In this event, we expect net debt at January 2011 will be between £400m and £500m, broadly in line with our outstanding bonds.

The opportunity to use cash generated to buy back shares is important to our strategy. In the context of a consumer environment that may remain subdued for some time, buybacks from free cash flow can turn modest underlying business growth into healthy EPS growth without adding any operational risk. If, for example, we generate £200m of cash and use it to buy back shares at £20, then EPS would be enhanced by 5% on a full year basis.

DIVIDENDS

We have proposed raising our final dividend to 47p, taking the total dividend for the year to 66p. This is an increase of 20% and is in line with growth in EPS. Dividend cover remains a healthy 2.8 times compared to the sector average of 2.4 times. Given our expectation for further strong cash flow and the current level of cover, we expect to raise dividends in the year ahead by at least 10%.

OUTLOOK FOR 2010/11

Outlook for the Economy

The outlook for the year ahead is hard to predict. The consumer has come through the recession in relatively good shape. Employment is down by less than 2%, mortgages remain low and the savings ratio is back to sustainable levels. There are some slight worries; interest rate reductions annualise in April and we are beginning to see some modest inflationary pressure from the recent spike in commodity prices.

The main concern is the size of the Government deficit. In whichever way a future Government balances its books, the results will be uncomfortable for the consumer. The best outcome will be if the Government is able to reduce the deficit through productivity gains, although this will not be without impact on consumer spending, as inevitably it will result in the loss of some public sector jobs.

A worse scenario for the consumer would be a rise in taxation; direct taxes will reduce consumer spending, indirect taxes are likely to be inflationary. So the outlook for the economy (and therefore for retail sales) remains dependent on policy decisions and their timing and, as yet, we have little certainty as to either.

Outlook for Sales, Costs and Profits

In the current environment, and for the reasons outlined above, it is difficult to make robust predictions about sales. At this stage we are budgeting the first half as follows:

Sales (VAT ex)	First Half Range
Like for like	- 2.5% to +0.5%
Total Retail including new space	+0.5% to +3.5%
Directory	+1.0% to +4.0%

The biggest challenge this year will be to absorb the increase in VAT without raising prices to customers. For the Spring Summer season we have succeeded in sourcing lower prices, which broadly offset the effect of increased VAT, so our prices will not be affected. We have yet to source a significant quantity of stock for the Autumn, but increased commodity prices (particularly cotton) may lead to modest inflation in our Autumn Winter cost prices. There are no significant threats to other costs in the year ahead, which are generally very well controlled.

We are reluctant to give full year profit guidance at this early stage. However, we think it is useful to outline how we expect profits to perform in a scenario where total sales are broadly level with last year. In the event that this year's total 52 week Brand sales can match last year's 53 weeks (i.e. full year Retail like for likes down around - 2%), then we believe we can further improve the Group's net operating margins by around 1%. It is important to stress that this is not a forecast but does give an indication of the level of cost management within the business.

SUMMARY

Next has had an excellent year and has made good progress in revitalising the Next Brand. Whilst we remain very cautious about the general economic outlook for the year ahead, we believe that we can grow operating profits with very modest increases in sales and continue to further enhance EPS with share buybacks from free cash flow. We are well placed to face the challenges of the coming year.

Simon Wolfson

Chief Executive

25 March 2010

Read the full announcement PDF [755 KB]

It is intended that the recommended final dividend will be paid on 1 July 2010 to shareholders registered on 28 May 2010. The Annual General Meeting will be held at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester, LE19 1SW on Tuesday 18 May 2010. The Annual Report and Accounts will be sent to shareholders by 15 April 2010 and copies will be available from the Company's registered office: Desford Road, Enderby, Leicester, LE19 4AT and on the Company's website at www.nextplc.co.uk.

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at www.nextplc.co.uk.

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