

Trading Statement – 3 January 2020

SUMMARY

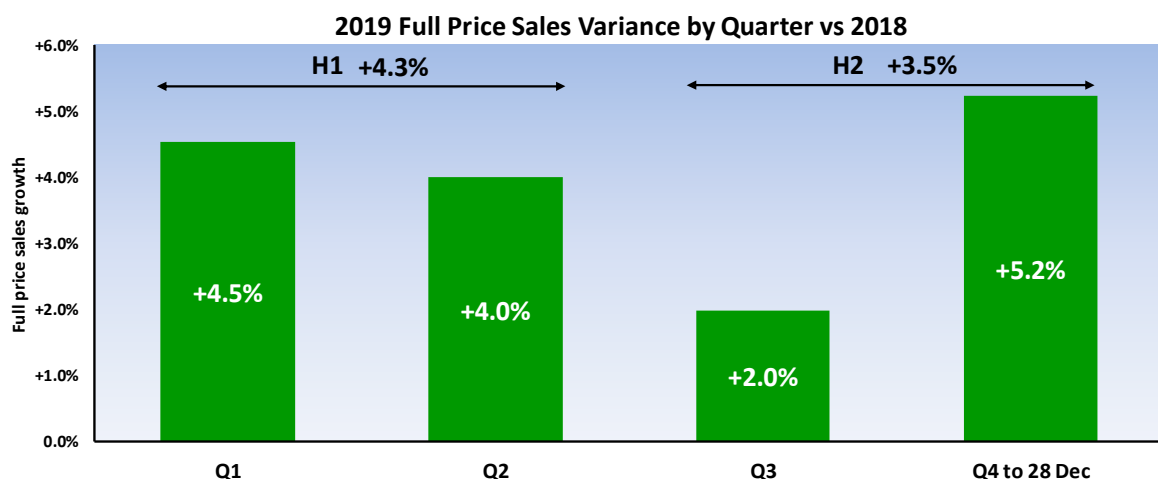
- Q4 full price sales¹ to 28 December up +5.2%, which was +1.1% ahead of our internal forecast
- Year to date, full price sales up +3.9% on last year
- Full year profit guidance increased by £2m to £727m². This would represent an increase of +0.6% on last year and Earnings Per Share (EPS) growth of +5.4%
- Looking ahead, initial guidance for the year ending January 2021 is for full price sales to be up +3.0%, profit up +1.0%, EPS growth of +3.5%

SALES TO 28 DECEMBER 2019

The table below sets out the full price sales performance by division for both the Christmas trading period (27 October to 28 December) and the year to date (27 January to 28 December). Full price sales in the Christmas trading period were +1.1% (£9m) better than our internal forecast. We believe our sales performance in the period was helped by a much colder November than last year and improved stock availability in both our Retail stores and Online.

Full price sales (VAT exclusive)	27 Oct to 28 Dec	Year to 28 Dec
Retail	- 3.9%	- 4.6%
Online	+15.3%	+12.1%
Product full price sales	+5.3%	+3.6%
Finance interest income	+3.4%	+7.8%
Total full price sales including interest income	+5.2%	+3.9%

The chart below shows the year on year full price sales growth by quarter.



End-of-Season Sale

Stock in our end-of-season Sale (including the stock we put into our Black Friday event) was down -2.9% on last year and Clearance rates to date have been slightly lower than our expectations.

¹ Full price sales include interest income.

² This profit estimate is on a pre-IFRS16 basis, consistent with the prior year.

FULL PRICE SALES AND PROFIT GUIDANCE FOR THE CURRENT YEAR

For the full year we expect full price sales growth of +3.9%, +0.3% ahead of the guidance given in October. We have increased our profit guidance for the full year by £2m to reflect these additional sales. Central guidance for EPS is 458.7p, an increase of +5.4% on the previous year.

Full year estimate to January 2020	New central guidance	Previous central guidance
Total full price sales versus 2018/19	+3.9%	+3.6%
Group profit before tax	£727m	£725m
Group profit before tax versus 2018/19	+0.6%	+0.3%
Earnings Per Share	458.7p	457.9p
Earnings Per Share growth versus 2018/19	+5.4%	+5.2%

OUTLOOK FOR SALES, PROFIT, CASH FLOW AND EPS IN THE YEAR AHEAD

Sales and Profit Guidance for the Year Ahead

Our guidance for full price sales growth for the year ahead is +3.0%. At this level of sales growth, we anticipate Group profit would be £734m, up +1% on the current financial year. This guidance is based on a 52 week sales period. However, next year will be a 53 week year to 30 January 2021 and we expect the additional week of sales to generate approximately £13m of profit.

Cash Flow Guidance for the Year Ahead

Based on the guidance above we anticipate underlying surplus cash generation of £315m. This would be a £12m increase on our latest forecast for the current year. Underlying surplus cash is defined as cash generated in a 52 week period after deducting interest, tax (on the same basis as last year), capital expenditure and ordinary dividends, but before funding 15% of the increase in our nextpay receivables³.

In the year ahead, HMRC are accelerating Corporation Tax payments so that the full tax charge is paid in the year in which it is incurred. Previously, half of the tax payment was deferred until the following year. This change will result in an additional £70m cash outflow to HMRC. This has the effect of (1) reducing the Company's liability to HMRC by £70m and (2) increasing the Group's financial net debt by £70m. Our aim is to reduce this debt over a period of two years by reducing the distribution of surplus cash to shareholders by £35m in the years ending January 2021 and January 2022.

After taking account of the earlier tax payment and the profit generated from the 53rd week of sales, surplus cash available to shareholders for distribution during 2020/21 is expected to be £290m.

Cash flow	2019/20 Forecast	2020/21 Guidance
Underlying surplus cash (after interest, tax, capital expenditure and ordinary dividends)	£303m	£315m
Funding 15% of the increase in nextpay receivables	- £3m	- £3m
Earlier Corporation Tax payment		- £35m
53 rd week		+£13m
Surplus cash	£300m	£290m

³ Our approach to funding nextpay receivables was detailed in our July 2019 Half Year End Statement, see page 41.

This cash flow assumes Group debt will increase by £14m to fund 85% of the increase in nextpay receivables. The Group's financial net debt (excluding the timing impact of the earlier payment of Corporation Tax) is forecast to increase by around +1% in line with the forecast growth in Group profit.

Surplus Cash and EPS

As usual, our intention is to return surplus cash to shareholders through share buybacks or special dividends. Our buyback share price limit will continue to be based on achieving a minimum 8% Equivalent Rate of Return (ERR) on shares purchased. As a reminder, ERR is calculated by dividing the anticipated pre-tax profits by the current market capitalisation of the Group. Based on our profit guidance for the year to January 2021 of £734m and our current number of shares in issue, our price limit for share buybacks would be £71.76.

We intend to return at least half of our surplus cash (£145m) to shareholders in the first half of the year. If we have not been able to acquire shares to the value of £145m in the first half of the year we intend to distribute the balance⁴ as a special dividend. We intend to use the same method for determining how we distribute surplus cash in the second half. As always, our decisions concerning buybacks or special dividends will be subject to market conditions and the interests of shareholders generally.

Our central guidance for sales, profits and EPS in the year ahead is set out in the table below. The EPS growth assumes that (1) we will be able to use all surplus cash to buy back shares at £71.76 and that (2) these will be purchased evenly throughout the year.

Full year estimate to January 2021 (52 week basis)	Central guidance
Total full price sales versus 2019/20	+3.0%
Group profit before tax	£734m
Group profit before tax versus 2019/20	+1.0%
Earnings Per Share growth versus 2019/20	+3.5%

We are scheduled to announce our results for the full year ending January 2020 on Thursday 19 March.

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.

⁴ The balance is the difference between £145m and the value of shares purchased.