

BUSINESS MODEL

The key elements of our business model are set out here, together with the guiding principles that have shaped the direction in which we have taken the business.

We focus here on the core NEXT business.

Founded in 1982, NEXT is a UK based online and store retailer. It began as a small, women's clothing business and has expanded its range to include clothing for women, men, children and homeware. In 1987, we launched a direct to customer catalogue, which has since evolved into the UK's largest fashion online aggregation business.

Evolution has been key to NEXT's growth. Over time, the cumulative changes have produced a radically different business. From shops to online, from one brand to an aggregator of over 1,000 third-party brands, and from a UK-centric brand to one with increasing global reach.

For further information about our business and priorities, see pages 7 to 23 of the Chief Executive's Review.

OUR OBJECTIVES

We offer beautifully designed, excellent quality clothing, homeware and beauty products, responsibly sourced and accessibly priced. We are a business with excellent operations and strong financial disciplines and have spent years honing these skills, creating our supporting infrastructure, and building the trust and confidence of our customers, suppliers and partners. We aim to leverage and develop these exceptional qualities, supported by our core principles of acting responsibly.

We look to:

1. Add value

- Use our product skills, distribution networks, systems, services and sourcing to create goods and provide services that consumers consider are better than competitors.
- Focus on customers' satisfaction levels by improving the customer experience in our stores and continuing to develop and enhance our website and App.

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 Online business is complemented by our LABEL offering of branded products and, in the UK, our credit facilities (nextpay and pay in 3). Our objective is to be our customers' first choice online retailer for clothing, beauty and home products.

3. Make a healthy margin

- Achieve healthy gross and net margins through efficient product sourcing, stock management and cost control.

4. Make 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, 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

- Through dividends, share buybacks or other forms of capital return.

Everything we do at NEXT is underpinned by a clear financial goal – the delivery of long term, sustainable growth in Earnings Per Share.

BUSINESS PRIORITIES

Product

We continually improve our product ranges, embracing newness, improving quality and broadening appeal.

See the Chief Executive's Review on page 9 for further details.

Service

We constantly improve our customer and online services.

See Part 2 of the Chief Executive's Review from page 7 for further details.

Cost

We relentlessly manage our costs.

See the Chief Executive's Review from page 17 for further details.

New business

We lay foundations for future growth to keep developing new business opportunities.

See Part Two in the Chief Executive's Review on page 7 for further details.

OUR INFRASTRUCTURE

We draw on our assets – great people, warehouses, delivery networks, systems, websites, stores, marketing and credit facilities – to support a business selling over 1,000 third-party brands alongside our own NEXT products.

NEXT Online

- Around 10.4m UK Online customers.
- 5.7m overseas customers, excluding aggregators.

Well-Connected Store Network

- Over 800 stores in the UK and Ireland (includes Reiss, Joules and FatFace stores).
- Approximately 200 franchised stores (includes Reiss, Joules and FatFace franchised stores).
- In 37 countries.

Our UK stores play an important role in supporting our Online customers; nearly half of our UK Online orders are collected instore and the majority of UK returns are through our UK stores.

Supply Chain

NEXT has a well established supply chain that is supported by our overseas sourcing operation, NEXT Sourcing Limited (NSL). NSL provides buying, sourcing and design skills, which support our product teams in the UK.

Warehousing & Distribution

- Nine UK warehouses.
- Six UK depots.
- Two international hubs which are fully integrated with our cost-efficient distribution facilities.

Our distribution network serves our Retail stores and Online customer deliveries for both NEXT and third-party branded products. We also facilitate the intake of products held in third-party warehouses into NEXT's distribution network for onward delivery to customers.

Technology

Our technology systems support every aspect of the business, from customer-facing websites and Apps to the warehouse management and order routing software that underpins our operations. These systems also form the backbone of the services we provide to third-party partners through Total Platform.

Digital Marketing Systems

The development of digital marketing systems to target products and brands to customers. Our systems can manage significant amounts of data and incorporate sophisticated search facilities and web-based marketing tools that link with our email and social marketing systems.

Consumer Credit

NEXT Finance has built a high quality receivables book with customer credit balances of £1.5bn. The ability to sell products on credit has proven to be an attractive service to customers, which benefits Online sales and Group profitability. The customer receivables are a valuable asset, adding to the Group's financial strength.

Call Centres

NEXT operates multi-language call centres in the UK and overseas to support its worldwide customer service operations for Retail Stores, Online and NEXT Finance.

WHAT WE DO

The business has evolved at pace in recent years and continues to do so. The growth in our LABEL, wholly-owned brand and licences and Total Platform businesses have expanded the channels through which we generate sales. These can be summarised across four key streams:

NEXT Branded Products

Our in-house team develops NEXT branded products offering great design, quality and value for money, which are sold in store and online.

Third-Party Brands

Our LABEL business sells over 1,000 third-party clothing, home and beauty brands online. These are sold on a commission or wholesale basis.

Wholly-Owned Brands and Licences (WOBL)

Our WOBL business creates value by leveraging our infrastructure and supply base to create new brands and by combining NEXT's sourcing and quality expertise with the design inspiration of partner brands.

Total Platform and Investments

We leverage our infrastructure by offering a complete suite of services to third-party brands including websites, marketing, warehousing, distribution networks and contact centres. Prospective investments must be a great brand, with great management (either in place or available), they must be able to add value through taking on Total Platform and the price must be right.

HOW WE CREATE VALUE

Our Customers

We create value for customers by offering products that are worth more to them than the price they paid. That means getting the design, quality and longevity right - and pricing them fairly.

We also aim to make sure that when customers need help - before, during or after a purchase - they get it quickly and easily; to build trust and long-term loyalty.

Ultimately, value is created when our customers feel confident in their choice, satisfied with the longevity of their purchase, and positive about our customer service.

Our Shareholders

In order to achieve long term, sustainable growth in Earnings Per Share, we need to generate returns that exceed our total cost base, including product costs, operating expenses and the cost of capital.

We do that by:

- Selling products and services at margins that exceed their fully loaded cost.
 - Allocating capital only where returns exceed our hurdle rates.
 - Reinvesting retained earnings at attractive incremental rates of return, or by returning surplus cash to shareholders where we cannot.
- Disciplined cost control and capital allocation, not simply revenue growth, is the driver of sustainable EPS growth.

Third-Party Brand LABEL

● We provide third-party LABEL brands with a scalable and capital-efficient route to market - generating incremental revenue that they would not otherwise have access to at attractive contribution margins, presented in a way that is right for their brand.

Partnerships that grow both their profit and ours, sustainably, are more likely to endure.

Total Platform Clients

For Total Platform clients, we make our infrastructure available: websites, warehousing, distribution, technology, credit and customer service.

We aim to provide services that: cost less than developing it themselves, that work better than other third party alternatives and that do not require clients to invest any capital.

Value is created when our clients grow faster and at a lower unit cost than they could do independently.