

Date: Embargoed until 07:00 hrs, Thursday 6 January 2022
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Photographs: <https://www.nextplc.co.uk/media/image-gallery/campaign-images>

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Trading Statement – 6 January 2022

SUMMARY

- In the eight weeks to 25 December full price sales were up **+20.0%** versus two years ago. This was £70m ahead of our previous guidance for the period.
- We have increased our full year profit before tax guidance by +£22m to **£822m** which would be up +9.8% versus two years ago.
- Our initial guidance for the year ending January 2023 is for full price sales to be up **+7.0%** versus the current year (year ending January 2022). We estimate that profit before tax will be up +4.6% at **£860m**.
- The Board is declaring a further special dividend of **160p** per share to be paid at the end of January 2022. We intend to return to our pre-pandemic ordinary dividend cycle in the year ahead.

This statement is divided into two parts. Part One gives the performance for the eight weeks to 25 December and profit guidance for the current year (year ending January 2022). Part Two gives sales and profit guidance for the year ahead.

PART 1: THE CURRENT YEAR

Full Price Sales for the Eight Weeks to 25 December

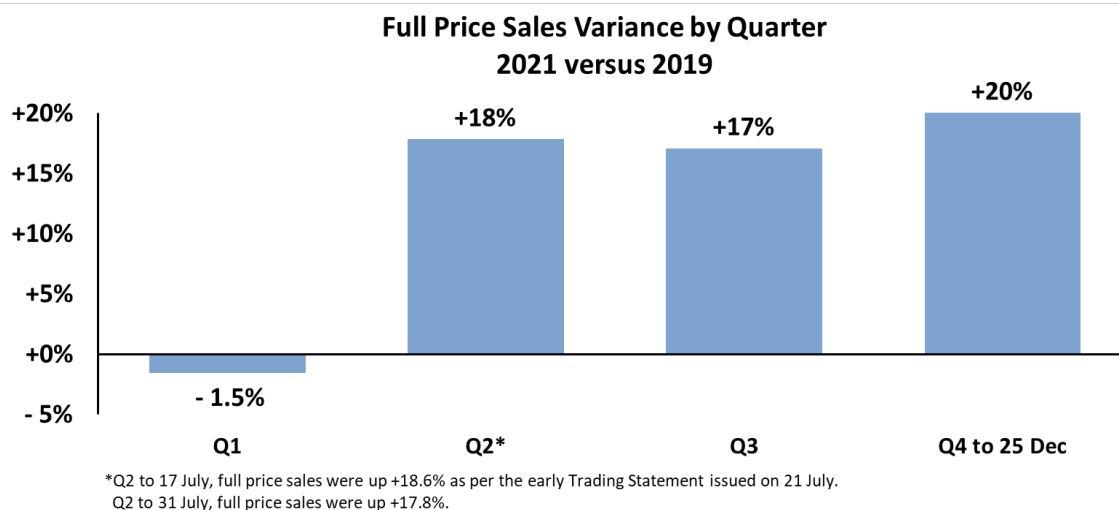
The table below sets out the full price sales performance for the eight weeks to 25 December and for the year to date. Please note that percentage variances are given **against two years ago**. Online sales are broken down into (1) NEXT branded stock sold in the UK, (2) LABEL third-party brands sold in the UK and (3) sales Overseas. For completeness, the last row of the table shows our sales performance compared to last year (2020/21).

Full price sales (VAT exclusive) versus 2019	Q4	Year
	to 25 December	to 25 December
Online NEXT UK	+31%	+36%
Online LABEL UK	+85%	+76%
Online Overseas	+36%	+51%
Total Online	+45%	+49%
Retail (UK and Ireland)	- 5.4%	- 24%
Total Product full price sales	+21%	+15%
Finance interest income	- 2.5%	- 7.8%
Total full price sales including interest income	+20%	+13%
<i>Total full price sales including interest income versus 2020/21</i>	<i>+23%</i>	<i>+35%</i>

2021/22 Full Price Sales by Quarter

We were expecting sales growth in Q4 to be weaker than Q3, however, a strong revival in NEXT branded adult formal and occasionwear significantly improved sales throughout the final period.

In the run up to Christmas our stock levels were materially lower than planned. We also experienced some degradation in delivery service levels as a result of labour shortfalls in warehousing and distribution networks. The fact that our sales remained so robust in these circumstances is, we believe, testament to the strength of underlying consumer demand in the period.



End-of-Season Sale

Surplus stock was much lower than expected, and stock for the end-of-season Sale was down -18% versus two years ago. The reduction in Sale stock was mainly the result of better than expected full price sales in the period. Clearance rates, so far, have been in line with our expectations.

Sales and Profit Guidance for the Current Year

For the full year we now expect full price sales growth of +12.8% versus 2019/20, £70m ahead of our previous guidance. We have increased our pre-tax profit guidance for the full year by +£22m to £822m. (This forecast is based on full price sales in January being +12% ahead of two years ago).

Guidance for the full year 2021/22	Full year guidance	Versus 2019/20	Previous guidance	Versus 2019/20
Full year full price sales	£4.3bn	+12.8%	£4.2bn	+11.0%
Group profit before tax	£822m	+9.8%	£800m	+6.9%
Earnings Per Share (Basic)	530.0p	+12.2%	516.9p	+9.4%

Cash Flow and Special Dividends in the Current Year

We now expect to generate at least £345m of free cash¹, before shareholder distributions. On 3 September 2021 we paid a special dividend of 110p per share, with a total value of £140m. The Board has decided to return a further £205m to shareholders by way of a second special dividend of 160p per share. This dividend will be paid on Friday 28 January 2022 to shareholders registered at the close of business on 14 January 2022. Shares will trade ex-dividend from 13 January 2022.

¹ 'Free cash' here is defined as cash generated after interest, tax, capital expenditure, the financing of customer receivables and working capital but before the payment of any dividends.

PART 2: THE YEAR AHEAD

Economic Uncertainties for 2022

Our headline sales growth expectations of +7.0% sounds uncontroversial. However, forecasting sales for the year ahead is unusually difficult and the buoyancy of recent months makes it all the harder. We are assuming no further disruption from COVID; but there are five areas of uncertainty in the wider economic environment that we need to bear in mind, these are:

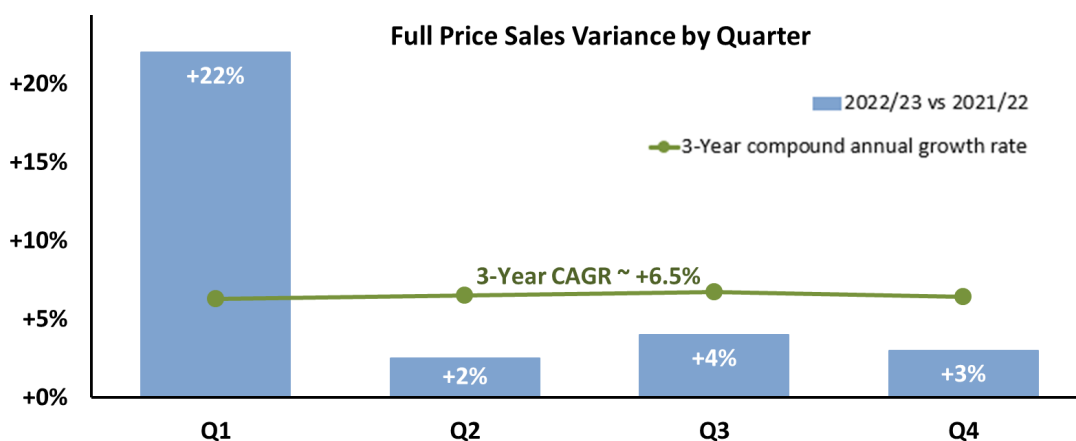
Pent-up demand & savings	To what extent has the buoyancy of the last nine months been the result of pent-up demand combined with the spending of savings accumulated over the pandemic? How much of this will reverse out as we move through next year?
Travel and leisure	To what extent will the return to spending on overseas holidays and other social activities depress demand for discretionary goods?
Essential goods inflation	To what extent will inflation in essential goods and services (fuel, electricity, food, etc) reduce discretionary spending on clothing and homeware?
NEXT goods inflation	To what extent will the inflation in our own selling prices, estimated at around 6% in the second half (see below), serve to depress the demand for our products?
Tax and interest rates	To what extent will the 1.25% increase in National Insurance and possible increases in mortgage rates affect discretionary spending?

Clear answers to these questions are impossible at this stage but they all point to a tougher environment as we move through next year.

Full Price Sales Guidance for the Year Ahead

Our guidance for the year ahead assumes full price sales growth of **+7.0%** versus 2021/22 (i.e. a one year comparison). This headline growth rate represents +6.5% compound annual growth against 2019/20, which was the last year to be unaffected by COVID.

Our guidance reflects very strong growth in the first quarter (when stores were shut in 2021) and anticipates much weaker year-on-year growth in the last three quarters of 2022 as comparative numbers improved in 2021. In the chart below, the blue bars show the one year full price sales growth by quarter. The green line shows the compound annual growth rate (CAGR) versus the year ending January 2020 (i.e. over three years) for each quarter. As can be seen, on a quarter by quarter basis, the compound annual growth against three years ago looks more realistic.



Outlook for Inflation 2022

We have revised our estimates for selling price inflation in the year ahead, mainly as a result of the unanticipated persistence of higher freight rates into the back end of the year ahead, along with some further increases in manufacturing costs. 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. We anticipate that average wage inflation across the NEXT Group will be 5.4%, driven by the increase in the national living wage of 6.6%² along with wage inflation in sectors where there are labour shortages, most notably in Warehousing and Technology.

The table below sets out the expected inflation in our *like-for-like* selling prices in the first and second half of the year ahead. Our selling prices are increasing broadly in line with the landed³ cost of goods.

	Spring & Summer	Autumn & Winter
UK like-for-like selling prices	+3.7%	+6.0%

Like-for-like price comparisons are given between identical or very similar items. We expect our total average selling prices to increase by *more* than the like-for-like price increases. This change is, we believe, the result of consumers choosing to buy slightly fewer items, but at moderately higher price points - perhaps exchanging volume for quality.

Summary of Sales, Profit and Earnings Per Share Guidance

If full price sales are up +7.0%, we estimate that Group profit before tax will be £860m, up +4.6% versus the current financial year. In this scenario we have assumed that sales grow faster than profits as a result of (1) the absence of COVID rates relief in the first quarter and (2) a return to more normal levels of surplus stock for our end-of-season Sales.

Guidance for the full year 2022/23	Full year guidance	Versus 2021/22
Full year full price sales	£4.6bn	+7.0%
Group profit before tax	£860m	+4.6%
Earnings Per Share (Basic)	553.8p	+4.5%

Please note that the anticipated Earnings Per Share does not account for any potential share buybacks in the year ahead.

² Effective from April 2022.

³ Landed costs are the cost of goods including the cost of freight.

Cash Flow Guidance for the Year Ahead

Based on the guidance above we anticipate underlying free cash available for distribution to shareholders of £430m as set out below.

Cash flow for year ending January 2023	£m (e)
Profit before tax	860
Tax	(145)
Depreciation	105
Capital expenditure	(190)
Customer receivables	(130)
Working capital and other	(70)
Free cash flow anticipated in the year	430

There are two points within the cash flow that benefit from further explanation:

Capital expenditure Our capital expenditure estimate of £190m is £55m higher than the previous estimate of £135m, given in April 2021. This is mainly due to the acceleration of warehouse capacity projects and new technology projects.

Customer receivables In the past we would have funded 85% of the receivables growth with debt. In the year ahead, as part of the process of re-setting our net debt to its current level, we intend to fully fund the increase in receivables with cash generated in the year.

Dividends and Shareholder Returns

In the year ahead we plan to return to our pre-pandemic ordinary dividend cycle, with a final dividend proposed in March 2022 and, subject to shareholder approval at the AGM, paid in August 2022; and an interim dividend declared in September 2022 and paid in January 2023.

Any remaining surplus cash⁴ (after accounting for the costs of any investments or acquisitions) will be returned to shareholders by way of share buybacks or special dividends. Any share buybacks would be subject to achieving a minimum 8% equivalent rate of return (ERR). As a reminder, ERR is calculated by dividing the anticipated pre-tax profits by the current market capitalisation⁵ of the Group. As always, our decisions concerning buybacks or special dividends will be subject to market conditions and the interests of shareholders generally.

FULL YEAR RESULTS ANNOUNCEMENT

We are scheduled to announce our results for the full year ending January 2022 on Thursday 24 March.

⁴ Surplus cash is free cash less the cost of ordinary dividends.

⁵ Market capitalisation is calculated based on shares in circulation of 127.6m, so excludes shares in NEXT's Employee Share Option Trust.

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.