

# NEXT

## Trading Statement – 4 August 2022

### OVERVIEW

Sales in the first half of the year have been dominated by a sharp reversal of last year's lockdown trends. Sales in Retail stores recovered, while Online growth appears to have reverted back to its longer term trajectory. Many product trends have also returned to pre-pandemic norms. Lockdown winners such as Home and sportswear retreated, while formalwear returned to favour. As anticipated, Online returns rates and surplus stock also reverted to pre-lockdown levels.

### HEADLINES

- Q2 full price sales<sup>1</sup> up **+5.0%**<sup>2</sup> versus last year, £50m ahead of our previous guidance.
- Full price sales guidance for the second half maintained at **+1.0%**.
- Full year profit guidance increased by **+£10m** to **£860m** (+4.5% versus last year).
- Earnings Per Share (EPS) guidance increased to **+7.2%** versus last year.

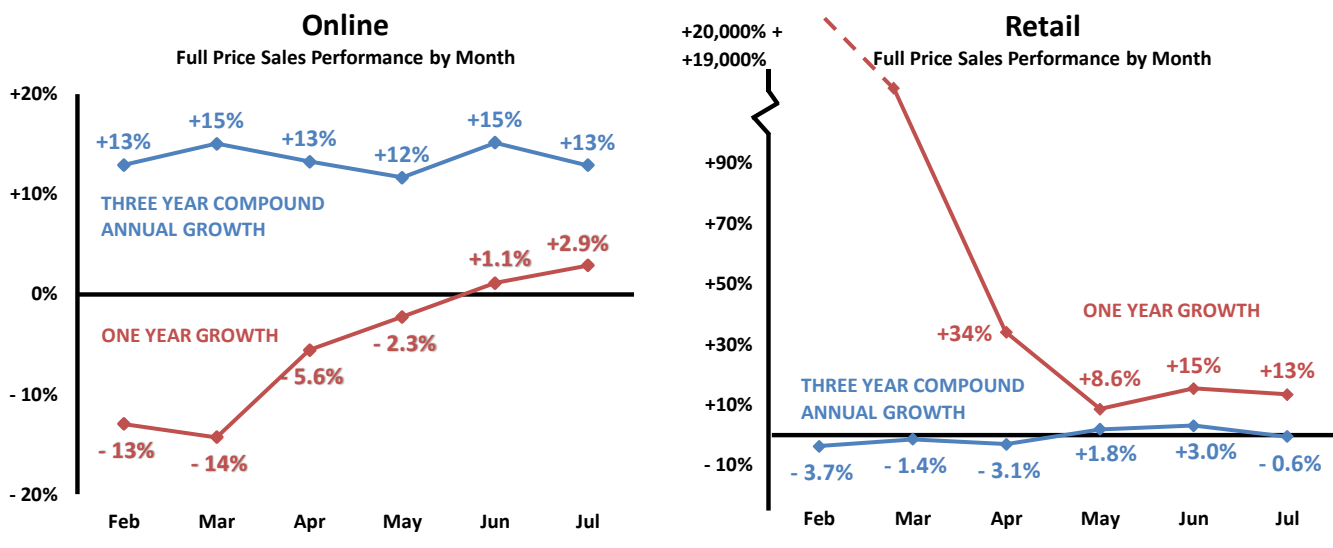
### FULL PRICE SALES PERFORMANCE

Full price sales in the quarter were +4.7% stronger than we expected. In part, we believe this over-performance has been the result of unusually warm and dry weather in June and July. A marked return to formal dressing, perhaps driven by pent up demand for social events (weddings etc.), has also played to the strengths of the NEXT brand.

### Retail and Online Sales Trends

At first sight, our full price sales performance against last year suggests that (1) growth Online has ground to a halt and that (2) Retail is having something of a renaissance. This is certainly the case on a one year basis. But we think that these changes reflect a short term reversal of pandemic trends, and are unlikely to be indicative of longer term trends in consumer behaviour.

Last year, our stores were closed for most of the first quarter. Even when they reopened we believe that many customers remained wary of visiting shops. During this time we think Online shopping was inflated by at least as much as Retail sales were depressed. The charts below show the sales performance of our Online and Retail businesses against one year (red line) and the compound annual growth rate (CAGR) against the last pre-pandemic year, three years ago (blue line). The three year CAGR is much more consistent than the growth against last year and, we believe, gives a clearer picture of long term consumer trends.



<sup>1</sup> Full price sales are total sales excluding VAT, less items sold in our Sale events, Clearance operations and Total Platform.

<sup>2</sup> Full price sales against last year, excluding Russia and Ukraine, were up +6.3%.

## Quarterly Sales by Business

A more detailed breakdown of our sales performance by business division is given in the tables below for the first and second quarter. The first table shows the comparison against last year and the second against three years ago.

### One Year Comparison

Versus 2021/22

Full price sales (VAT exclusive) by division	Q1 to 30 April	Q2 to 30 July
Online	- 11.1%	+0.2%
Retail	+284.5%	+12.0%
<b>Total Product full price sales</b>	<b>+22.1%</b>	<b>+4.5%</b>
Finance interest income	+11.4%	+13.0%
<b>Total full price sales including interest income</b>	<b>+21.3%</b>	<b>+5.0%</b>

### Three Year Comparison

Versus 2019/20

Full price sales (VAT exclusive) by division	Q1 to 30 April	Q2 to 30 July
Online	+47.0%	+44.4%
Retail	- 8.2%	+4.7%
<b>Total Product full price sales</b>	<b>+21.3%</b>	<b>+25.5%</b>
Finance interest income	- 2.2%	+2.4%
<b>Total full price sales including interest income</b>	<b>+19.5%</b>	<b>+23.8%</b>

## A Resurgence in Retail?

During Q2, Retail's full price sales performance has been much better than we had anticipated and up (+4.7%) against three years ago. We had planned that our stores would be down against 2019, following the long run of negative like-for-like retail sales we have experienced since 2016.

We suspect that the apparent improvement in the fortunes of our stores is, to some extent, down to the number of competing stores that have closed in the last three years. This is supported by ONS industry statistics<sup>3</sup> for February to June which suggest that the total money spent on clothing in all UK retail stores is down -6% compared to three years ago.

## Longer Term Online Growth Rates

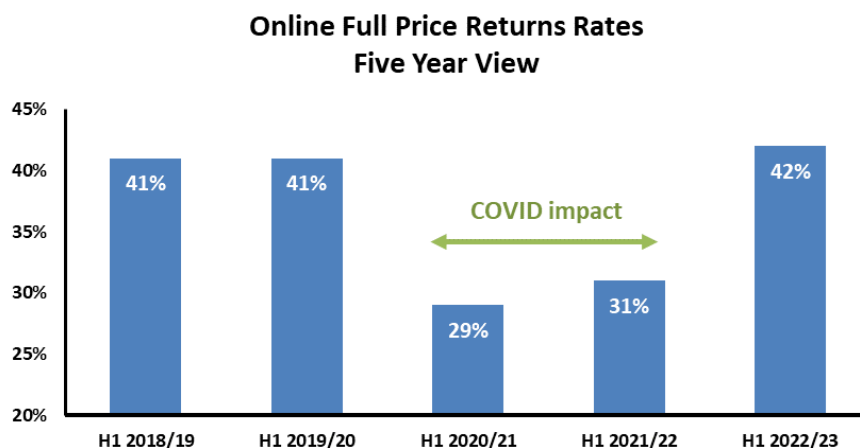
In the first half, the CAGR of our Online business over the last three years is very similar to the CAGR experienced in the three year period pre-COVID, as shown in the table below. Of course, these numbers do not imply Online sales will continue to grow at +13.4%, but they do demonstrate that our current Online sales growth is not as unusual as it first appears.

	Three years July 2019 - July 2022 (Six months)	Three years pre-COVID 2016/17 - 2019/20 (Full year)
Online compound annual growth in sales	<b>+13.4%</b>	+12.6%

<sup>3</sup> Two ONS datasets are used: (1) total retail spend on clothing in the UK and (2) the percentage of sales achieved online. Combining these two provides the total spend in physical shops. Data sources: (1) Retail sales pound data VaINSAT, 22 July 2022 and (2) Retail Sales Index internet sales ISCPNSA3, 22 July 2022.

## ONLINE RETURNS RATES - BACK TO PRE-COVID LEVELS

As anticipated, returns rates have reverted and are currently close to pre-pandemic levels at 42%. This follows two years of exceptionally low returns rates during the pandemic. The low returns rates during the pandemic were mainly driven by product mix, with sales of low returning categories such as Home, childrenswear and sportswear far exceeding their normal levels.



## END OF SEASON SALE

### Stock Going into the Sale

Last year, our stock for Sale was exceptionally low mainly as a result of industry wide stock shortages. So this year Sale stock was +30% up on last year. However, against three years ago, Sale stock grew by +25%, broadly in line with the growth in full price sales over that period (as set out in the table below). Once again, it is last year's figure which is unusual, with this year's surplus returning to more normal levels.

	H1 full price product sales (exc. interest income)	H1 surplus stock	Difference in growth
<b>Growth versus last year (2021/22)</b>	+12%	+30%	<b>+18%</b>
<b>Growth versus three years (2019/20)</b>	+23%	+25%	<b>+2%</b>

### Clearance Rates

To date, our clearance rates have been below our expectations. As mentioned earlier, warmer weather has been very helpful for full price sales during the quarter. However, the particularly hot weather experienced on the first two days of our Sale encouraged customers to stay away from shops and particularly hampered clearance of heavier weight products. The additional cost of the lower clearance rates is reflected in our revised central profit guidance and has been more than offset by the benefit of better full price sales.

## NEXT FINANCE

We expect NEXT Finance profit to be in line with the guidance of £160m previously issued in March and for our customer receivables balance to close the year at £1.28bn, which would be up +10% versus last year and ahead of pre-COVID levels. As set out in the table below, defaults show a marginal deterioration against last year but are still materially better than pre-COVID levels.

	July 2022	July 2021	July 2020	July 2019
Defaults as a % of customer receivables balance	1.7%	1.6%	1.9%	2.0%

## GUIDANCE FOR FULL PRICE SALES, PROFIT AND EPS

### New Central Guidance

The £10m increase in our central guidance for profit before tax is explained in the table below. £15m of additional profit has come from better than expected full price sales in the first half. Retail sales were a larger percentage of our total full price sales in the quarter, which improved margin by +£6m, and we are expecting a similar gain in the second half. These increases have been partially offset by additional costs as set out in the table below.

<b>Previous profit before tax guidance (£m)</b>	<b>850</b>
Q2 full price sales beats	+15
Q2 increase in participation of Retail sales	+6
H2 expected increase in participation of Retail sales	+8
<b>Total increases in guidance profit</b>	<b>+29</b>
Lower clearance rates of surplus stock	- 6
Higher logistics costs (mainly fuel)	- 6
Higher Technology costs (mainly acceleration of developer recruitment)	- 4
Staff incentives / other	- 3
<b>Total increase in guidance costs</b>	<b>- 19</b>
<b>Revised profit before tax guidance</b>	<b>860</b>

### Guidance Range

The stronger than expected sales performance in Q2 is not expected to continue into the second half and we are maintaining our sales guidance for the remainder of the year at +1%. Our caution stems from two factors, we believe that: (1) an unusually warm summer boosted sales in the first half and we do not expect a similar weather windfall in the second half; and (2) the impact of inflation on consumer spending is likely to worsen in the second half. Our latest full price sales and profit guidance ranges for the full year are set out in the table below.

<b>Guidance for 2022/23</b>	<b>Lower</b>	<b>Central guidance</b>	<b>Upper</b>	<b>Previous central guidance</b>
H1 full price sales versus 2021/22 (actual)	+12.4%	+12.4%	+12.4%	-
H2 full price sales versus 2021/22	- 3.0%	+1.0%	+5.0%	-
<b>Full year full price sales versus 2021/22</b>	<b>+4.0%</b>	<b>+6.2%</b>	<b>+8.4%</b>	<b>+5.0%</b>
<b>Profit before tax</b>	<b>£820m</b>	<b>£860m</b>	<b>£890m</b>	<b>£850m</b>
Profit before tax versus 2021/22	- 0.4%	+4.5%	+8.1%	+3.3%
Earnings Per Share	543.3p	569.1p	588.5p	557.3p
Earnings Per Share versus 2021/22	+2.3%	+7.2%	+10.9%	+5.0%

## SHARE BUYBACKS

So far, in this financial year, we have spent £224m on share buybacks at an average price paid per share of £63.85, which equates to 3.5m shares. This reduces the number of shares in issue by 2.6%. If profits are in line with our guidance of £860m, then the Equivalent Rate of Return<sup>4</sup> (ERR) on these buybacks will be 10.6%.

## INTERIM RESULTS

We are scheduled to announce our results for the first half of the year on Thursday 29 September 2022.

### *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.

<b>Date:</b>	Embargoed until 07:00 hrs, Thursday 4 August 2022	
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<b>Photographs:</b>	<a href="https://www.nextplc.co.uk/media/image-gallery/campaign-images">https://www.nextplc.co.uk/media/image-gallery/campaign-images</a>	

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<sup>4</sup> Equivalent rate of return (ERR) is calculated by dividing the anticipated pre-tax profits by the market capitalisation at the start of the financial year (January 2022). NB - Market capitalisation is calculated based on the shares in circulation, so excludes shares in the NEXT Employee Share Option Trust.