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Photographs: <https://www.nextplc.co.uk/media/image-gallery/campaign-images>

next PLC

Trading Statement – 21 July 2021

INTRODUCTION

Our sales during the last eleven weeks have been materially ahead of our expectations and, as a result, we are increasing our profit guidance for the full year. We have brought forward our Trading Statement by two weeks, so this update replaces our Trading Statement planned for 4 August 2021.

All sales comparisons in this Trading Statement are given relative to two years ago (2019/20) as comparisons with last year are not meaningful.

HEADLINES

- Full price sales in the eleven weeks to 17 July were up +18.6% versus two years ago. Our previous central guidance assumed an increase of +3%.
- We have increased our full price sales guidance for the rest of the year from +3% to +6%.
- The Company has decided to repay £29m of business rates relief to the Government. This sum accounts for the period of time this year that our shops *were not* charged business rates but *were* open. This decision was taken after consulting major shareholders who, between them, account for around 30% of our shares in issue.
- We are increasing our central guidance for full year profit before tax by +£30m to £750m (pre-IFRS 16). This is towards the top of our previous guidance and accounts for (1) the profit from additional sales and (2) the cost of the unplanned repayment of business rates relief.
- For the full year, surplus cash¹ is forecast to be £240m. We plan to distribute this cash to shareholders through special dividends during the current financial year, the first of which will be paid in September.

FULL PRICE SALES PERFORMANCE BY BUSINESS CHANNEL

The table below details sales growth for our Online, Retail and Finance businesses for the year to date. For comparison, the left-hand column shows sales for Q1 (reported in our May trading statement), the second column gives the sales in the current quarter.

Full price sales (VAT exclusive) versus 2019	Q1	Q2 to 17 July	H1 to 17 July
Online NEXT UK	+63%	+28%	+47%
Online LABEL UK	+71%	+65%	+68%
Online Overseas	+67%	+61%	+64%
Total Online	+65%	+44%	+56%
Retail (UK and Ireland)	- 76%	- 6%	- 43%
Total Product full price sales	- 0.6%	+20.8%	+9.3%
Finance interest income	- 12%	- 9%	- 11%
Total full price sales including interest income	- 1.5%	+18.6%	+7.8%

¹ Surplus cash after working capital, capital expenditure, customer receivables, investments, interest and tax.

Possible Explanation for Strong Q2 Sales

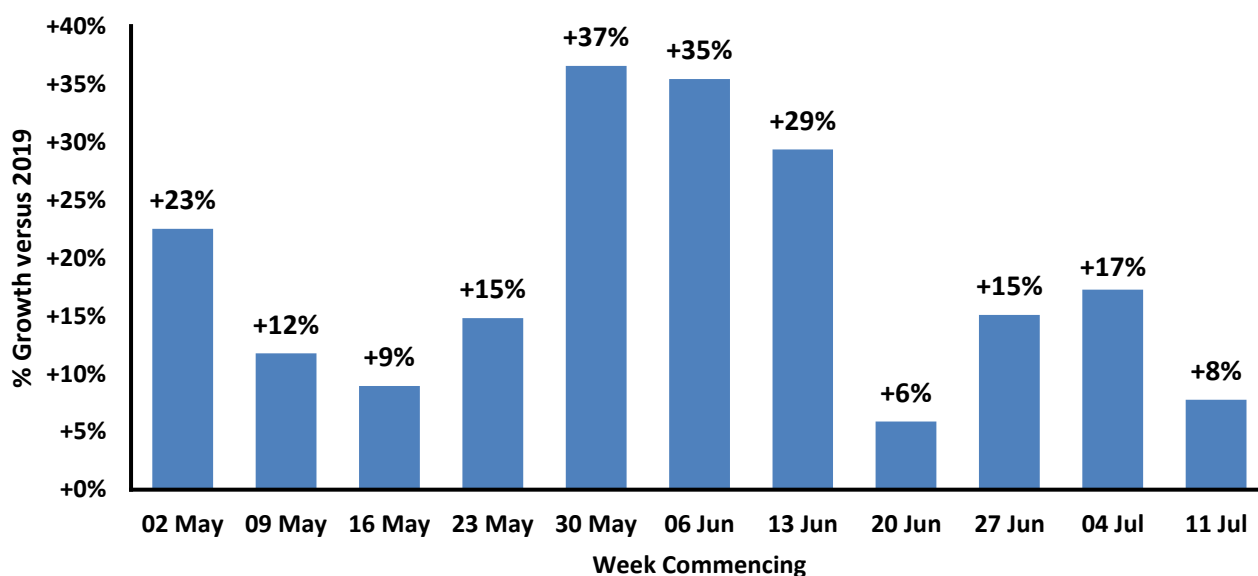
We believe that the following factors have contributed to the unexpectedly strong sales performance:

1. Pent-up demand for adult clothing, with many customers having made few summer purchases during the last 18 months.
2. The onset of extremely warm weather at the end of May and start of June. Growth significantly slowed once the very warm weather passed.
3. Fewer holidays overseas are likely to have increased domestic spending in the UK.
4. Consumer savings have materially increased over the last year.

Sales Performance by Week

The following chart shows full price sales growth by week. The last three weeks of the period are affected by the timing of our end-of-season Sale, which was a week later than two years ago. The effect has been to boost full price sales growth in the weeks commencing 27 June and 4 July, but depress performance in the week commencing 11 July. The average during the three weeks was +13% versus two years ago.

2021 Full Price Sales Variance by Week Versus 2019



Second Half Full Price Sales Guidance

We do not expect sales to continue at these exceptionally strong levels but we are more optimistic about the outlook than we were three months ago, and have raised our sales guidance for the second half from +3% to +6%.

Product Full Price Sales Performance - Breakdown by Brand and Division

The table below sets out the variance in total full price sales (i.e. Retail and Online added together) by product category and geography. Given the exceptional performance in the UK of NEXT Childrenswear and NEXT Home, we have broken out the performance of these areas from our Adult clothing business.

In the last eleven weeks, UK sales performance across all NEXT divisions has improved with the opening of our stores. The performance of LABEL (+64%) and our Overseas Online business (+61%) has remained consistently strong both before and after the opening of our stores.

Full price product sales (VAT exclusive) versus 2019 (Retail and Online added together)	Q1	Q2 to 17 July	H1 to 17 July
UK NEXT-branded Adult clothing	- 46%	- 6%	- 27%
UK NEXT-branded Childrenswear	+2%	+12%	+6%
UK NEXT-branded Home	+12%	+40%	+25%
UK NEXT brand	- 22%	+7%	- 8%
UK LABEL third-party brands (inc. Lipsy sold in stores)	+67%	+64%	+66%
TOTAL UK full price sales	- 9%	+16%	+2%
Overseas Online	+67%	+61%	+64%
Overseas Retail (Republic of Ireland)	- 100%	+1%	- 54%
Total full price product sales	- 0.6%	+20.8%	+9.3%

Finance Interest Income

In the last eleven weeks, interest income was down -9% and in line with our expectations, average customer balances (excluding provisions) were down -7%. Lower customer balances were caused by a combination of (1) customers choosing to pay down their balances faster and (2) reduced credit sales during the pandemic last year.

End-of-Season Sale

We went into the end-of-season Sale on 10 July, with surplus stock down -4% on two years ago. As expected, clearance rates to date are lower than two years ago but marginally ahead of our forecasts.

FULL PRICE SALES AND PROFIT GUIDANCE

Our revised central guidance for full price sales and profit before tax is set out below.

It is important to note that our sales guidance assumes that our stores will be permitted to remain open and trade throughout the rest of the year.

	Central scenario
Full price sales to 17 July versus 2019/20	+7.8%
Rest of year full price sales versus 2019/20	+6.0%
Full year full price sales versus 2019/20	+6.8%
Profit before tax (pre-IFRS 16)	£750m
Profit before tax versus 2019/20	+3.0%

Profit Walk Forward from Previous Guidance

The table below walks forward the change in our central profit guidance from the forecast we issued in May. The anticipated additional sales of £185m (of which £121m has been achieved to date) are forecast to contribute an additional £59m to profit.

Previous central guidance for profit before tax (pre-IFRS 16)	£720m
Profit from +£121m of additional full price sales to date	+£39m
Profit from +£4m of additional full price sales forecast in the next two weeks	+£1m
Profit from +£60m of additional full price sales forecast in the second half	+£19m
Profit based on new full price sales guidance	+£779m
Voluntary payment of business rates relief	- £29m
New central guidance for profit before tax (pre-IFRS 16)	£750m

Repayment of Business Rates Relief

Since our stores have reopened they have performed better than we expected, and we intend to repay any business rates relief we have received, or will receive, while our stores are *open* this year. This decision was taken after consulting major shareholders who, between them, account for around 30% of our shares in issue. Assuming that our stores remain open for the remainder of the financial year, we estimate the cost of this repayment will be £29m.

OUTLOOK FOR CASH FLOW, DIVIDENDS AND NET DEBT

Cash Flow

Based on the central guidance, we expect to generate around £483m of surplus cash after deducting working capital, capital expenditure, interest and tax. We anticipate using £172m of this surplus to fund the expected reversal in last year's decline in customer receivables. A further £71m of other investments are expected as set out below. This would leave £240m, which we intend to distribute to shareholders (see paragraphs below).

£m	Jan 2022 (e)
Profit before tax (pre-IFRS 16)	750
Depreciation/disposals and property provisions	105
Capital expenditure	(190)
Tax paid	(125)
Working capital (including £75m of net ESOT ² purchases)	(57)
Surplus cash from operations	483
Customer receivables	(172)
Investment in Reiss (£33m equity and £10m loan)	(43)
Property stock (Elmsall 3 warehouse build costs)	(28)
Investments	(71)
Cash flow before distribution to shareholders	240

Dividends

We remain committed to distributing surplus cash, that we cannot profitably invest in the business, to shareholders. As a result of the pandemic, last year we did not pay any dividends to our shareholders. In the light of this year's anticipated cash flow and the stability of our balance sheet, we now believe it is appropriate to restart dividend payments.

The Board has decided to declare a special dividend of 110p per share to be paid on 3 September 2021 to shareholders registered at the close of business on 13 August 2021. Shares will trade ex-dividend from 12 August 2021. The total value of this special dividend is approximately £140m.

It is our intention to distribute the balance of surplus cash generated as a second special dividend at the end of January 2022 which, if paid, would be announced in our Christmas Trading Statement on Thursday 6 January.

It is our intention to return to ordinary dividends in the year to January 2023.

Net Debt (Excluding Lease Debt)

Our £325m bond will be repaid in October 2021 and we do not intend to issue a new bond in its place. After the payment of anticipated special dividends and the repayment of the £325m bond, we forecast our net debt will be £610m in February 2022. This would be in line with our opening position in February 2021 but significantly lower than our net debt in February 2020, which was £1,112m. In February 2022 this net debt would represent around 50% of our forecast customer receivables balance of £1.2bn.

£m	Cash on deposit	Bonds	Net debt
Opening balance February 2021	515	(1,125)	(610)
Forecast cash flow generated in the year before dividends	240		240
Forecast special dividends	(240)		(240)
Repayment of October 2021 bond	(325)	325	0
Forecast closing balance February 2022	190	(800)	(610)

² Employee Share Option Trust.

INTERIM RESULTS

We are scheduled to announce our results for the first half of the year on Wednesday 29 September 2021.

STATUTORY PROFIT - IFRS 16 LEASES

Background

The lease accounting standard IFRS 16 was introduced in 2019. In 2020 we reported our profits both on a pre-IFRS 16 and post-IFRS 16 basis. Going forward we intend to only report on a post-IFRS 16 basis. This will be the last Trading Statement where we quote pre-IFRS 16 profit.

Profit Guidance Under IFRS 16

Our revised profit guidance under IFRS 16 is set out below. Profit before tax is £14m higher under IFRS 16. A detailed explanation of the impact of IFRS 16 was set out in our Year End Results in January 2020³.

	Central guidance 2021/22	2019/20
Profit before tax (pre-IFRS 16)	£750m	£729m
Impact of IFRS 16	+£14m	+£20m
Profit before tax (post-IFRS 16)	£764m	£749m
Profit before tax versus 2019/20	+2.1%	

Cash Flow Under IFRS 16

For clarity, IFRS 16 does not alter the reported or actual cash flow of the Group, so the forecast cash flow before distributions to shareholders remains £240m.

This announcement contains Inside Information as defined in Article 7 of the Market Abuse Regulation.

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.

³ <https://www.nextplc.co.uk/~media/Files/N/Next-PLC-V2/documents/2020/Copy%20of%20Jan20-website.pdf> (Page 49)