

# next PLC

## Results for the Year Ending January 2021

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# CHAIRMAN'S STATEMENT

In last year's Full Year Results, published just as the UK went into lockdown, we stated that our sector was facing a crisis unprecedented in living memory. We also stated that our strong balance sheet and profit margins would allow us to weather the storm.

Both statements have proved true. A year on, NEXT has delivered profit before tax of £342m (2019/20: £729m, both pre-IFRS 16) in line with the central guidance issued in our January 2021 Trading Statement. Despite most of our stores being closed for a significant portion of 2020/21, Total<sup>1</sup> Group sales decreased by less than 17% to £3.6bn (2019/20: £4.4bn).

In April 2020, we stated our intention to suspend all capital returns to shareholders for the duration of the financial year and until the situation stabilises. Given the continuing uncertainty around when our stores will reopen, no final dividend is proposed for 2020/21 and our share buyback programme remains suspended. We remain committed to returning capital to shareholders in the long term and will review our position later in the year when we have better visibility of our trade once our stores reopen.

Our cash resources have been carefully managed with a number of actions taken to conserve cash during the year. As a result, net debt reduced to £610m (2019/20: £1.1bn).

We expect the shift in consumer behaviour towards Online sales to continue for some time and one of our priorities during the year has been to continue the development of our Online platform. We accelerated part of our planned capital expenditure in the Online business, spending £121m on warehousing and systems.

During the year, the Board appointed Tom Hall as a non-executive director to replace Francis Salway, who has served on our Board for over nine years and will step down at the 20 May 2021 AGM. On behalf of the other directors, I would like to thank Francis for his very significant contribution to the Board and to the Remuneration Committee during his time with NEXT. I have particularly valued his hard work as Chairman of our Remuneration Committee. We will miss Francis' unflappable and persistent good sense. Tom will take over the role of Chair of the Remuneration Committee and Jonathan Bewes will take over the role of Senior Independent Director on Francis' retirement at the 2021 AGM.

I believe that in difficult times there is a clearer separation between the stronger corporate performers and the weaker ones. This result is due to the formation of a good management team and the establishment of robust processes during less volatile periods. Our continued investment over many years in our people and our systems has shown resilient results in the past year.

The strength of the Group is built on the hard work and dedication of all NEXT's people and this year has highlighted their resilience and ability to work together in times of crisis. I would like to thank them for their outstanding work during an extremely demanding year.

**Michael Roney**  
Chairman

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<sup>1</sup> Total sales are VAT exclusive sales including the full value of commission based sales and interest income (refer to Note 2 of the financial statements).

# CHIEF EXECUTIVE'S REVIEW

## HEADLINES

### *Performance in the Year Ending January 2021*

- Full price sales<sup>2</sup> down **-15%** on last year.
- Profit before tax of **£342m**<sup>3</sup> and in line with guidance given in January.
- Year end net debt<sup>4</sup> reduced by **£502m** to £610m.

### *Updated Central Guidance for the Full Year Ending January 2022*

- Total Brand full price sales guidance remains unchanged and flat against 2019/20 (a two-year comparison).
- The anticipated end of the third lockdown in April<sup>5</sup> is two weeks later than we had allowed for in our previous guidance. However, the profit lost from those additional two weeks has been offset by the benefit of the extension of business rates relief announced in March.
- In the first eight weeks of the year, Online sales have been stronger than expected and are up more than +60% on two years ago. This overachievement plus the expected transfer of sales from Retail during the additional two weeks of lockdown, are expected to add £30m of profit. As a result, we are raising our central profit guidance by £30m from £670m to **£700m**.

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<sup>2</sup> Full price sales are Total sales excluding VAT, less items sold in our mid-season and end-of-season Sale events, our Clearance operations and through Total Platform. These are not statutory sales (refer to Note 2 of the financial statements).

<sup>3</sup> Profit before tax of £342m is pre-IFRS 16, Leases. The financial information presented in pages 2 - 59 is that used by management to monitor and assess business performance. They are not statutory measures unless stated as such. A reconciliation to the statutory equivalents is provided in the Appendix on page 60.

<sup>4</sup> Net debt excludes leases.

<sup>5</sup> This refers to the end of the lockdown in England (which represents around 85% of our retail sales). The end of lockdown in parts of Scotland, Northern Ireland and Eire will follow later.

## PURPOSE AND STRUCTURE OF THIS DOCUMENT

Mark Twain famously apologised for writing a long letter, he did not have the time to write a short one. The implied self-criticism is not lost on us. This is a long report and, with time, it could be more succinct. But the main reason for its length is that there is so much to explain. The effect that the pandemic has had on the business, the way we coped with its challenges and, most importantly, the shape and economics of the business going forward, all require explanation.

In this report, we have given more detailed guidance for the year ahead across each of our main divisions: Online, Finance and Retail. We have endeavoured to give shareholders a sense of how much the business has changed over the last year and an understanding of the Company's underlying economics as we emerge from the pandemic.

For ease of reading, this document is divided into the following five sections:

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<b>PART 1 THE BIG PICTURE</b>	<i>Pg 6</i>	A reflection on the performance of the past year, the factors that helped get us through the pandemic and an overview of how we see the business developing going forward.
<b>PART 2 GROUP FINANCIAL PERFORMANCE</b>	<i>Pg 16</i>	This section provides a summary of Group sales and profits by division, cash flows and financing. It also includes a summary of Group capital expenditure.
<b>PART 3 DIVISIONAL FINANCIAL PERFORMANCE</b>	<i>Pg 27</i>	<p>This section gives a detailed breakdown and analysis of the performance of our three main business divisions: Online, Finance and Retail.</p> <p>In addition to explaining last year's numbers, we have also shared our expectations for the <i>future</i> performance of each division in the year ahead.</p> <p>This section finishes with a summary of the performance of other Group companies and non-trading activities.</p>
<b>PART 4 TOTAL PLATFORM</b>	<i>Pg 51</i>	An update on our Total Platform business, new clients we have contracted with during the last twelve months and new equity investments.
<b>PART 5 SALES AND PROFIT OUTLOOK FOR 2021/22</b>	<i>Pg 57</i>	This section covers our outlook for the year ahead, with our sales and profit guidance.

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# PART 1 - THE BIG PICTURE

This section aims to give an overview of: (1) how the Company has managed through the pandemic; (2) how the business has dramatically evolved its product offer and customer base; (3) the way in which we intend to develop the business going forward and (4) a summary of the outlook for the year ahead.

## RESILIENCE THROUGH THE PANDEMIC

### *Four Underlying Advantages*

If we had been told twelve months ago that our shops were going to be shut for 20 weeks, we could not have imagined the Group delivering the sales or profit we achieved last year. We have been very fortunate. For a number of different reasons, our business was well placed to cope with the pandemic. The resilience of the business can be attributed to four main factors; in order of importance these are:

#### *Online Scale*

Going into the pandemic, Online sales (including Finance) accounted for more than half of the Group's turnover. The scale of our Online business and the breadth of its customer base, both in the UK and Overseas, meant we were able to pick up a significant amount of the business lost in our stores by servicing customers online.

#### *Product Diversity*

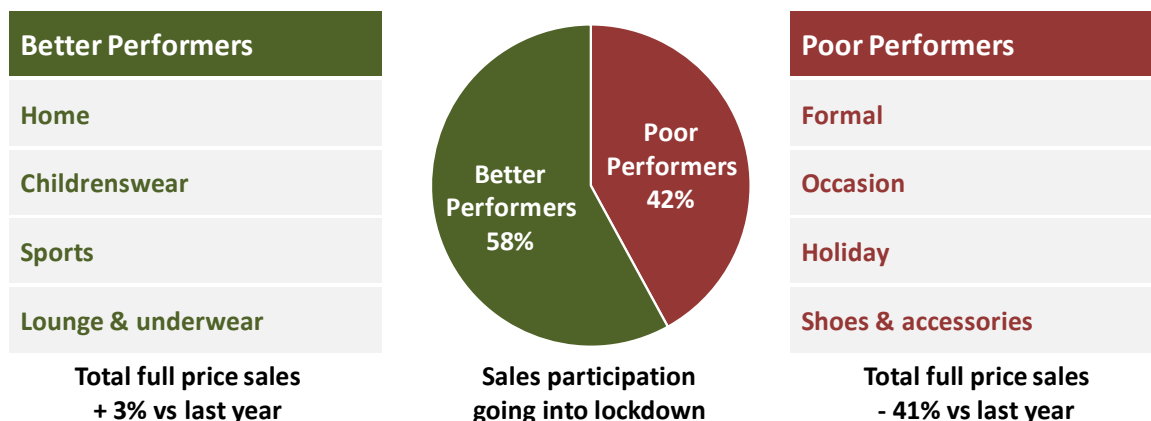
The diversity of our product offer, across the NEXT brand and through LABEL, has proved an invaluable asset during the pandemic. It meant that, when lockdown precipitated a dramatic decline in the demand for adult fashion, other products, more suited to lockdown life, were able to recover much of the loss. So, areas such as homeware, childrenswear, sportswear and stay-at-home basics (underwear, sweat tops, joggers, nightwear, etc.) all served to mitigate declines in adult's formal and casual clothing, footwear and accessories. The graphic below sets out the dramatic divergence in performance between over-performing and under-performing categories.

#### *Balance Sheet*

The financial resilience of our balance sheet, the extent of our cash resources and the quality of our customer receivables meant that we have not needed to draw on emergency Government lending.

#### *Retail Parks*

Our retail park store portfolio accounted for 62% of our Retail sales going into the pandemic. In general, retail park stores are local and easier to access, with social distancing simpler to maintain both within and outside the store. So it is not surprising that these locations fared much better than city centres and shopping malls. At the times when stores were open, like-for-like-sales in retail parks, although negative, were between 15% and 20% better than our other stores.



### *Lower Returns Rates Online*

We were also fortunate in one other respect. The product areas that did well have much lower returns rates than those that underperformed. For example, customers traditionally order several dresses with the intention of only keeping the one they like, so the returns rate is high. Conversely, the returns rate on babygrows is very low. That, along with customers generally being more selective at point of order, meant that we experienced a material reduction in returns rates. This allowed us to achieve sales growth far in excess of the growth in units we despatched from our warehouses. So, although Online full price sales in the second half increased by +34%, units picked and despatched grew by just +13%.

We expect the level of returns to revert to more normal levels once the pandemic is over. However, the end of social distancing rules should allow for more efficient working practices in our warehouses, which in turn would increase output.

### *A Thank You*

I cannot report on the resilience of the business over the past year without mentioning the extraordinary effort and dedication of colleagues across the business. From warehouses to stores, through our head office departments, contact centres to our overseas sourcing offices; people have worked tirelessly to support the business in the face of unprecedented challenges.

Without exception, every part of the business understood the situation we were in and faced up to its challenges with hard work, innovation, teamwork, and a (mostly!) cheerful determination to make sure their part of the business got through. Whilst the Company had many advantages going into the pandemic, it has been the endeavours and ideas of colleagues that have proven to be our greatest asset; and it has been their collective commitment that allows us to go into the year ahead with the prospect of heading back to the levels of sales and profitability we delivered in 2019/20.





# RELEVANCE AND EVOLUTION

## DELIVERING CHANGE IN A CHANGING WORLD

We were, in many ways, fortunate that the business was so well placed to ride out the swings in consumer behaviour caused by the pandemic. But the building of a diverse, profitable, and well financed business, along with the development of new online routes to market, has not been accidental. It has come as a result of a conscious and consistent effort to adapt and change the business, and to maximise the opportunities presented by our Online infrastructure, product skills, supplier base, and partnerships.

It is this process of change and constant business development that has kept the business relevant and profitable.

### *The Extent of the Change*

In any one year, the changes in NEXT's business model have been unremarkable, but over time the change has been dramatic. For example, ten years ago our Online Overseas and LABEL businesses were mere glints in the corporate eye. They are now forecast to take £1.3bn in the year ahead accounting for nearly a third of the Group's sales and 28% of our profit. They remain some of the fastest growing parts of the Group.

The tables below demonstrate just how radically the Group has changed its business since 2005. They compare the sales participation of different parts in 2005 to our estimate for sales in the year ahead along with the percentage growth of those areas. Our Online business (including Finance) has increased fivefold, moving from 23% of the Company's revenue to 71%, and our Home business has more than trebled its sales. The year to January 2022 for Retail is artificially low due to the ten weeks when the stores will be closed. If we account for the lost sales in those weeks, then the participation of Retail would be around 34%, instead of 29%.

#### Online versus Retail sales

	£ sales	% Participation	
	17 year % change	Jan 2005	Jan 2022(e)
Retail	- 39%	77%	29%
Online/Finance	+403%	23%	71%
Total	+61%	100%	100%

#### Group: Clothing versus Home sales

	£ sales	% Participation	
	17 year % change	Jan 2005	Jan 2022(e)
Clothing	+43%	90%	79%
Home	+219%	10%	21%
Total	+61%	100%	100%

#### Online: UK versus Overseas sales

	£ sales	% Participation	
	17 year % change	Jan 2005	Jan 2022(e)
UK	+307%	100%	81%
Overseas	-	0%	19%
Total	+403%	100%	100%

#### Online: NEXT versus LABEL sales

	£ sales	% Participation	
	17 year % change	Jan 2005	Jan 2022(e)
NEXT Brand	+265%	100%	73%
Third-parties	-	0%	27%
Total	+403%	100%	100%



## ***No Grand Strategy - Following the Money***

At this point it is worth explaining the thinking behind the way in which we have moved the business forward. The transformation has *not* been guided by a grand 'strategy'; mercifully we have not been reliant on boardroom 'vision'. At no point did we set out a "Ten Year Plan" to reach a given point. Financial controls have been, and remain, hugely important in ensuring that individual business endeavours make a profit. But this financial 'control' is a world apart from the sort of 'command and control' that so often hampers innovation and speed.

Instead, the business has *followed the money*, developing new ideas bottom up, drawing on innovations generated throughout the Group - new product ranges, new businesses, new distribution channels, services, partnerships and markets. It is evolution in the true sense of the word, where small trials that fail, fail fast and those that succeed are developed as far as possible.

## ***Guiding Principles***

But, it would be a mistake to characterise this evolution as simply random. There are very clear guiding principles that have both encouraged and constrained the direction in which we have taken the business. New ventures must conform to four criteria:

### ***Create Value***

Whatever businesses we develop, if they are to succeed, they must create real value - for our customers, partners and suppliers. It is not always easy to resist the temptation to sell products where we add little value, for example, we know very little about travel so would not rebadge a third-party travel offer as NEXT travel.

Equally we could be tempted to make too much profit at the expense of our third-party branded partners. Of course, we have to make our target margin, but more than that, we will give back to our partners. To that end, we have unilaterally lowered third-party commission rates twice in the last three years. We will do so again if we are able to deliver further economies of scale. We want our partners to view NEXT as an invaluable ally, not a necessary evil.

### ***Play to our Strengths***

We are, at heart, a fashion and homeware business with excellent operations and strong financial disciplines. We have spent years honing those skills and the supporting infrastructure - building the trust and confidence of both our customers and partners along the way. It is these qualities that we aim to leverage and develop as we move forward.

### ***Healthy Operating Margins***

Fashion is risky and volatile; it involves taking on many fixed costs that stick in a difficult year. If our business is to ride out the slips and misfortunes inherent in our sector, we need to maintain margins healthy enough to get us through those difficult periods. Last year was about the most extreme stress test we could have had, and our resilience is testament to the financial disciplines that run through everything that we do.

### ***A Healthy Return on Capital***

Deliver a return on capital invested commensurate with the risk of any individual business. Capital is the lifeblood of the business; it is what our shareholders have invested in the business and ultimately what they expect to get back from us. Making a good return on their investment has to be our primary mission.

In addition to sticking to the principles set out above, we have also had to be ruthlessly honest with ourselves and the outside world about the nature of the change our sector is experiencing. We have also had to make some uncomfortable decisions.

### *Uncomfortable Truths and Difficult Decisions*

In many ways the last ten years have been about adapting to the simple truth that, initially, we did not want to believe: Retail stores were, and will remain, at a fundamental and irreversible disadvantage to online competition. This is not being driven by price or even home delivery, but by the scale of the *choice* websites can offer relative to any physical store. The annual decline in Retail like-for-like sales has become the new normal, and looks set to remain that way for many years.

The moment we reconciled ourselves to that fact was, in some ways, a new beginning. Managing the transition was harder than fighting it, but much more productive. It allowed us to follow the new money rather than defend the old.

Following the money can be uncomfortable, because new ideas often pose a threat to existing businesses. The decision to compete with ourselves through selling third-party brands and, more recently, the opening up of our sourcing skills to other brands through licensing were not entirely uncontroversial. We have learned to embrace these and other opportunities nonetheless.

Our view is simple: there is nowhere to hide on the internet, and we are better to collaborate with other brands to our mutual benefit, than cling on to past advantages in the vain hope our customers will not find the competition. And of course, the broader our product offer, the more relevant our website becomes to an increasing number of customers.

## **INCREASING CHOICE WITHIN THE NEXT BRAND**

LABEL brands have served to increase the breadth of our website offer far beyond NEXT's natural design, fashion and price boundaries. Just as important, but much less obvious, has been the numerous ways in which our own NEXT product ranges have been extended and diversified.

### *Liberation from the Constraints of Space*

Unlike physical stores, the internet is unconstrained by limited display space. In addition, items can be made available online with minimal stock investment, whereas making an item available across 500 stores, in several sizes, requires thousands of units. The release from Retail constraints has given our product teams the freedom to develop additional designs, product categories and size ranges. Today, the only real constraints on the size of our offer are the minimum order quantities required to make production viable, along with the quality promise inherent in our brand.

### *Greater Choice Across Wider Price Range*

On clothing ranges such as lingerie, sportswear and children's shoes, the size of our offer has grown dramatically. For example, we stock over 1,000 NEXT children's shoes ranging across school shoes, loafers, trainers, wellies, party shoes, sandals, slippers, running shoes, hiking boots and more. In addition, price architectures have been stretched to serve new customer types. Whether that be the introduction of £399 price-starter sofas-in-a-box or a top of the range £160 men's parka, price extensions have served to increase the potential audience for our brand.

### *The Extent of the Change*

The table below sets out the number of unique items that were on sale on our website during the second half of the year ended January 2021 compared to the same period five years ago. NEXT items have grown significantly in both fashion and home product areas. Third-party branded items, sold through LABEL (including Branded Beauty), have seen enormous growth and now make up more than 70% of all the items that are for sale on our website.

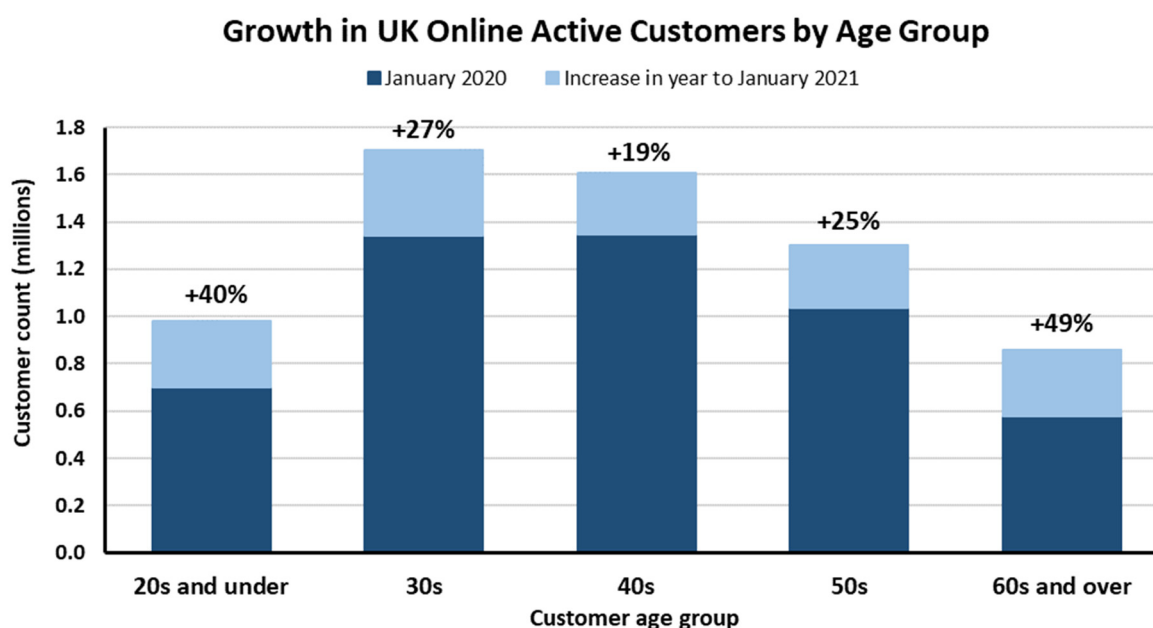
Number of items	H2 2020/21	H2 2015/16	Var %
NEXT Fashion	35,000	13,000	+169%
NEXT Home	17,000	9,000	+89%
<b>NEXT Total</b>	<b>52,000</b>	<b>22,000</b>	<b>+136%</b>
Branded Beauty	20,000	0	
LABEL Brands	130,000	7,000	+1757%
<b>Total</b>	<b>202,000</b>	<b>29,000</b>	<b>+597%</b>

## NEW CUSTOMERS

### *A Broader Online Customer Base*

We believe that the net effect of all this additional choice has been to significantly increase the reach and relevance of our website. Over the last two years we have grown our customer base by +40% to 8.4m (see page 29).

The graph below demonstrates how we have grown our UK customer base by age. Each bar shows the number of customers in the UK represented by each age group as at January 2021. Above each bar is the percentage that category has grown since January 2020. The fact that the fastest growing customer segments are the youngest *and* the oldest cohorts is, we believe, testament to the broadening appeal of our website and product ranges.

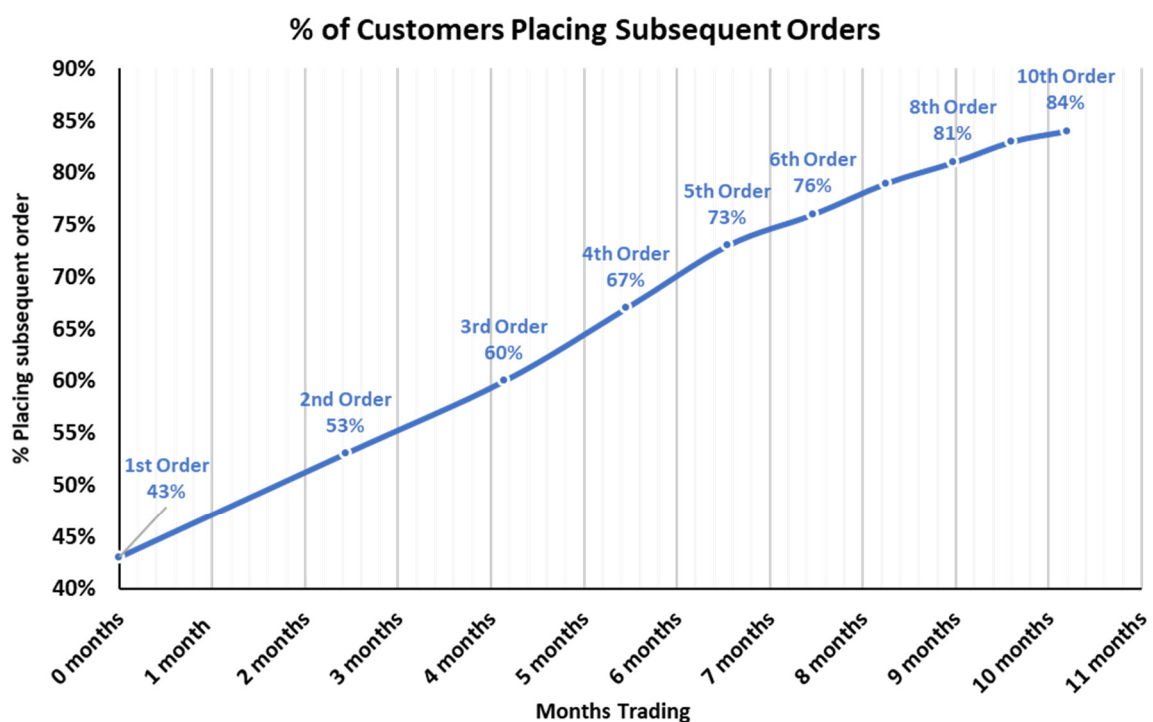


### Post Pandemic Retention?

It is impossible to say with certainty how many customers, who shopped Online as a result of the pandemic, will remain shopping Online once stores reopen. Our instinct is that retention rates for customers acquired in 2020 are likely to be similar to those gained in more normal times, though we recognise that might be optimistic.

One thing appears to be certain, the longer the pandemic encourages online shopping, the more likely it is that customers will keep shopping that way. What might start as an experiment or lockdown necessity, over time, becomes increasingly normal and convenient.

The graph below demonstrates this point. It shows the percentage probability of a customer placing a future order relative to the times they have ordered in the past. The horizontal axis shows the average number of months between orders. So, for example, on average a customer places their second order after 2.5 months and has a 53% probability of ordering again. As time goes on, remaining customers are likely to order more frequently.



*Data source: NEXT Online UK customers recruited between April-June 2019, orders tracked to end of February 2020*

## THE DEVELOPMENT OF NEW BUSINESS

We continue to develop new business ideas within the Group, chief amongst these being our licensing and Total Platform businesses.

### *Total Platform*

Total Platform aims to leverage NEXT's Online infrastructure and provide partners with a comprehensive solution to trading online - website, call centres, warehousing, distribution, returns and retail services all handled by NEXT.

The objective is to provide a better service at a lower cost, while delivering frictionless growth far faster and more simply than clients could develop their own operations. The service also means clients do not need to invest capital in growing their systems or operations. The capital costs are covered in the price of the Total Platform service, which is charged as a simple percentage of sales. This leaves clients free to focus on the most important aspects of their business: their products, their brand and their marketing.

We now have Total Platform contracts in place with five clients: Childsplay Clothing and Laura Ashley which are both now operational, Victoria's Secret UK which we intend to launch in May this year, a fashion startup brand ('NewBrand'<sup>6</sup>) targeted to open in September and Reiss which is planned to launch in February 2022.

Each client has slightly differing operating models. Some partners (Laura Ashley and NewBrand) will be serviced by their own branded webpages embedded as distinct ring-fenced areas *within* the NEXT website. For these 'Total Platform Light' clients, customers will checkout through NEXT branded checkout pages and deliveries will be made in NEXT packaging. Other clients (Childsplay, Victoria's Secret and Reiss) will have their own completely independent websites, their own branded checkout pages and their goods will be delivered in their own branded packaging.

In addition to signing Total Platform service agreements, we have taken an equity interest in three clients:

- Reiss: 25% with the option of raising our stake to 51% (see page 52)
- Victoria's Secret UK and Eire business<sup>7</sup>: 51%
- NewBrand, which is launching in September: 33%

The aim of the equity stakes is twofold: it serves to align our interests more completely with the client and allows us to benefit from some of the upside that Total Platform can deliver. This approach is discussed in more detail on page 54.

This year, we have the systems and warehousing capacity to introduce four clients. So we do not expect to add further clients this year, although we may lay the foundations for future deals. Our priority now is to smoothly and efficiently execute the transition to Total Platform for these clients. Over the course of the year we will gain a much better understanding of the costs and operational challenges associated with the transition, along with the commercial benefits Total Platform can deliver to our clients. These lessons will determine the shape and speed at which we grow this business in the future.

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<sup>6</sup> A new startup brand will be launching in the second half of 2021. Their brand name is currently confidential and will not be shared in this report and we refer to them as NewBrand.

<sup>7</sup> This venture is jointly owned with Victoria's Secret parent company, LBrands. The JV has a seven-year licence for Victoria's Secret and Pink product in the UK and Eire.

## *Licensing*

Our licence business has grown significantly in the year, working with brands such as Baker by Ted Baker childrenswear, Mint Velvet childrenswear, Joules menswear, Scion, and Laura Ashley Upholstery and Flowers. In each case, the aim is to combine our partner's design skills with NEXT's sourcing and quality expertise to create ranges better than either of us could create on our own.

In the year ahead we expect to launch licences with six new partners, and we are budgeting to generate sales of £60m across all our licensed products.

## *Platform Plus*

Last year we began to deliver meaningful returns on the investment we made three years ago in Platform Plus, a system that enables us to take orders on stock available in our partners' warehouses. This service is forecast to generate sales of around £110m in the year ahead and a profit of more than £15m.

## THE INFRASTRUCTURE CHALLENGE

One of next year's big challenges will be ensuring that our operational infrastructure keeps up with the speed of our Online growth, the increasing breadth of our offer and the delivery of new business ideas. To this end, we have accelerated capital investment in both warehousing and systems and we expect to make good progress on both fronts in the year ahead (see page 25).

In addition to this investment in infrastructure, we are planning to significantly improve the level of service we give through our contact centres with more people, new systems and improved working practices.

## WHERE DOES THAT LEAVE OUR STORES?

Our Retail business has two main challenges. Firstly, we must work towards getting our retail costs in line with the new reality of lower sales. Secondly, we must continue to adapt our store operations to keep them relevant in an online world.

There are three things we will focus on:

- Managing our **occupancy costs** down to levels that can be supported by Retail sales. Last year 80 leases expired; we closed 18 branches and renegotiated rents in 62 stores, achieving an average reduction in rent of -58%.
- Managing our **staffing costs** down to levels that can be supported by Retail sales and Online work available in each store. Over the last two years, the headcount in our stores has reduced from 24,700 to 21,600. The vast majority of that reduction has been achieved through natural staff turnover, with existing members of staff taking up shifts made available when others leave.
- Improving the **store based Online services** we provide through store collections, returns (before the pandemic, Online customers collected nearly 50% of their orders and returned over 80% of returns). More recently, stores have taken on some of the simpler returns processing and some basic packing work, which has proved particularly valuable at peak times. We are also experimenting with how we can allocate contact centre work to our store staff, providing valuable additional hours for staff and harnessing some of their experience and product knowledge for the benefit of our Online business.

## OUTLOOK FOR THE YEAR AHEAD

### *Uncertainty on Many Levels*

It is hard to think of a year where the outlook has been so uncertain. The health of the consumer economy, the future course of the pandemic and the prospects for Retail stores remain unknown. It also remains to be seen how many of the product preferences and shopping trends induced by the pandemic will persist once life returns to normal. The following paragraphs set out our thinking on the main uncertainties facing the business and our guidance for the year ahead.

### *Assumptions About the Consumer Economy and Future Lockdowns*

Our best guess is that the consumer economy, at least in the short term, will be healthier than many presume. It seems likely that a combination of pent-up demand along with a healthy overall increase in personal savings will serve to keep the consumer economy moving forward.

Whether or not there will be further lockdowns this year is impossible to predict. We have (perhaps optimistically) assumed that the rollout of COVID vaccines will result in stores remaining open for the year, once the current lockdown has passed. If this assumption is not correct, it is unlikely we will meet our central guidance for sales and profit.

### *Structural Change and the Future of Retail Stores*

There remains a big question mark over the level of sales our stores will achieve when they reopen. The pandemic has served to accelerate a pre-existing social trend - the move to more online shopping. History has been given a shove and, having moved forward, seems unlikely to reverse.

That said, the steady reduction in Retail occupancy costs, the continued relevance of our stores to online shopping through collections and returns and (perhaps) the closure of competing shops, mean that the battle to keep our stores relevant in an online world is far from over.

So our base case for the year ahead is that store sales will decline, on a like-for-like basis, by -20%. At this level (after reversing out the effects of the current lockdown) our store network would remain marginally profitable (see page 48).

### *Sales and Profit Guidance*

Our new central guidance is for the Company to deliver sales in line with those of 2019/20 (two years ago) and profit before tax of £700m, down £29m on two years ago (see page 57). That performance, on the surface, looks unremarkable, but it involves managing the loss of over half-a-billion of sales from our Retail stores and building that turnover back across our various Online businesses.

The scale of that change, with all the risks involved, is considerable. But these are changes that we have spent the last five years addressing. Looking ahead, there is more uncertainty than ever - the consumer economy, future lockdowns and more. But there is one thing about which we are sure: our business will emerge from the pandemic better placed to meet the challenges and opportunities of the online era than it was at this time last year.



## PART 2 - GROUP FINANCIAL PERFORMANCE

### OVERVIEW OF SALES, PROFIT AND NET DEBT

Brand full price sales in the year were down **-15%** on last year and total sales<sup>8</sup> (including markdown sales) were down **-17%**. This year was a 53-week year and the extra week added +1% to sales.

Profit before tax was **£342m** (pre-IFRS 16) and we reduced our net debt by **£502m** to £610m. The 53rd week added £12m to profit.

In the rest of this document, unless otherwise stated, we will compare sales and profit in the 53 weeks to January 2021 with 52 weeks in the prior year. We would usually provide figures and variances to the prior year on a 52-week basis but, given the level of disruption in the year, we do not believe this would be helpful.

On a statutory basis, total sales were down -17%. Profit before tax was also £342m and net debt (including leases) reduced by £567m to £1,796m.

### SALES

Total sales reduced by -£736m, with almost all of this reduction being in the first half of the year. In the second half, the sales lost in Retail (-£368m) were almost entirely offset by sales gained Online (+£364m).

#### *Sales by Division*

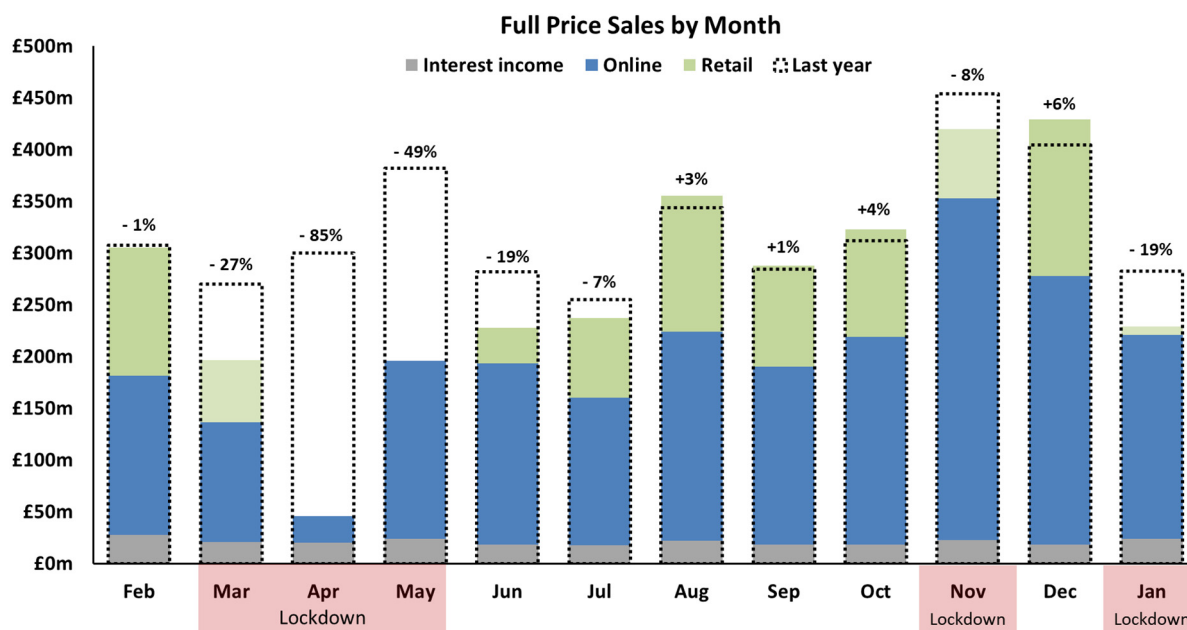
TOTAL SALES £m	Jan 2021	Jan 2020	Var £m	Var %	1st half var £m	2nd half var £m
Online	2,368.4	2,146.6	221.8	+10%	- 142	+364
Retail	954.5	1,851.9	(897.4)	- 48%	- 530	- 368
Finance	250.3	268.7	(18.4)	- 7%	- 6	- 12
<b>Brand</b>	<b>3,573.2</b>	<b>4,267.2</b>	<b>(694.0)</b>	<b>- 16%</b>	<b>- 678</b>	<b>- 16</b>
Other	52.7	94.6	(41.9)	- 44%	- 24	- 18
<b>Total Group sales</b>	<b>3,625.9</b>	<b>4,361.8</b>	<b>(735.9)</b>	<b>- 17%</b>	<b>- 702</b>	<b>- 34</b>

<sup>8</sup> Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 2 of the financial statements).

### Sales Phasing Throughout the Year

The chart below shows full price sales by month by sales channel. Retail sales are shown in green, Online product sales are shown in blue and Finance interest income in grey. The dotted black line shows the total full price sales for last year. The months that were most impacted by lockdowns, resulting in the closure of the majority of our stores, are highlighted in pink.

At the beginning of the pandemic in March 2020, we temporarily closed our warehouse operation for two weeks to make it COVID safe. On reopening in April, picking capacity was gradually increased and was back to more normal levels during May.



### Comment on Brand Markdown Sales

Our stock levels were well controlled during the year. Despite the sudden drop in sales following the first lockdown, our surplus stock in the year was down -17% on the prior year.

Markdown sales in the year were down -30% (down -41% in the first half and down -20% in the second half). Markdown sales declined more than full price sales because:

- We were unable to fully service the mid-season Sale event in late March due to the closure of our stores and the temporary closure of our warehouse.
- We reduced the availability of Clearance stock Online when warehouse picking capacity was limited and full price orders were prioritised.

Surplus stock and markdown sales £m	Jan 2021	Jan 2020	Var %
<i>Surplus stock at original selling value (VAT Inc)</i>	<i>959</i>	<i>1,159</i>	<i>- 17%</i>
Markdown sales (VAT ex.)	228	324	- 30%
Clearance sales (VAT ex.)	86	126	- 32%
<b>Total markdown sales (VAT ex.)</b>	<b>314</b>	<b>450</b>	<b>- 30%</b>

## PROFIT

### *Profit Summary (Excluding IFRS16 Leases)*

<b>PROFIT £m and Earnings Per Share</b>	<b>Jan 2021</b>	<b>Jan 2020</b>	<b>Var £m</b>	<b>Var %</b>
Online	472.1	399.6	72.5	+18%
Retail	(205.9)	163.9	(369.8)	- 226%
Finance (after charging interest)	112.4	146.7	(34.3)	- 23%
<b>Brand</b>	<b>378.6</b>	<b>710.2</b>	<b>(331.6)</b>	<b>- 47%</b>
Sourcing and Other <sup>9</sup>	(2.9)	27.8	(30.7)	
Property	(39.9)	(2.2)	(37.7)	
Group recharge of interest from Finance business	48.4	36.3	12.1	
Operating profit	384.2	772.1	(387.9)	- 50%
Net external interest	(42.2)	(43.6)	1.4	
<b>Profit before tax</b>	<b>342.0</b>	<b>728.5</b>	<b>(386.5)</b>	<b>- 53%</b>
Taxation	(51.4)	(134.6)	83.2	- 62%
<b>Profit after tax</b>	<b>290.6</b>	<b>593.9</b>	<b>(303.3)</b>	<b>- 51%</b>
<b>Earnings Per Share</b>	<b>226.3p</b>	<b>459.8p</b>		<b>- 51%</b>

### *Statutory Sales and Profit*

Profit before tax of £342m shown in the table above is stated on a pre-IFRS 16 (Leases) basis. The financial information presented in pages 2 to 59 is also pre-IFRS 16, and aligns with the accounts we use to monitor and assess the performance of the business. They are not statutory measures unless stated as such. Last year (unusually) profit before tax, on a post IFRS 16 basis, was the same as on a pre-IFRS 16 basis at £342m. The statutory numbers are summarised below and a reconciliation to the pre-IFRS 16 is provided in the Appendix on page 60.

<b>STATUTORY BASIS £m and EPS</b>	<b>Jan 2021</b>	<b>Jan 2020</b>	<b>Var £m</b>	<b>Var %</b>
Sales	3,534.4	4,266.2	(731.8)	- 17%
Profit before tax	342.4	748.5	(406.1)	- 54%
Profit after tax	286.7	610.2	(323.5)	- 53%
Earnings Per Share (Basic)	223.3p	472.4p		

<sup>9</sup> Other includes Franchise, Lipsy and other Group costs (page 49).

### *Non-recurring Costs, Savings and Profits*

Within the reported profit before tax of £342m, there are a number of significant, non-recurring items. These are summarised in the table below and in total, reduced profit by -£16m. The key lines are briefly explained in the text below the table.

It should be noted that all the non-recurring profit items detailed below are cash generative in the year, while almost all the non-recurring loss items are provisions that do not impact on cash flow in the current year.

Full year profit impact (pre-IFRS 16)	£m
Business rates reduction	+82
Property profit from the sale and leaseback of properties	+44
Profit from 53rd week	+12
<b>Subtotal: Benefits to profit</b>	<b>+138</b>
Property provisions for store impairment and onerous leases	- 100
Stock and fabric provisions	- 34
Bad debt provisions	- 20
<b>Subtotal: Costs to profit</b>	<b>- 154</b>
<b>Total profit impact from non-recurring items</b>	<b>- 16</b>

### *Property Profit*

In the first half of the year, we completed the sale and leaseback of a warehouse complex and our head office. These transactions resulted in a cash inflow on sale of £154m and a net profit of £44m<sup>10</sup>.

### *Property Provisions for Store Impairment and Onerous Leases*

We anticipate that Retail sales will not fully recover to pre-COVID levels and, as a result, we have increased our property provisions by £100m. This is the combination of an £18m write down of store assets and an £82m provision for future cash losses arising from onerous leases. Further details on our future sales assumptions are given on page 49. Whilst we have estimated future losses to the best of our abilities, it is possible that Retail sales may not be as good as we anticipate in 2021/22. If that is the case, we may need to take further provisions in the year ahead.

### *Stock and Fabric - Provisions and Write-Offs*

In the year, we made additional stock provisions and write-offs of £34m, for the following reasons:

- We have taken a provision for **Spring/Summer 2020 stock** that was hibernated until 2021.
- We made additional provisions against **Clearance stock** carried over into this year. Note that this provision is *over and above* the usual 70% write-down we make on stock after our Sale events.
- We have written off 30% of the value of the **Fabric** we purchased from suppliers which had been bought by them to fulfil orders that we subsequently cancelled.

Total stock and fabric provisions have increased in the year from 9% of cost to 16%.

<sup>10</sup> Under IFRS 16 the difference between the cash proceeds and the asset sold (£44m) is not recognised as a gain in the year. Instead, the gain is £8m with the difference amortised over the remaining lease term. The cash benefit and P&L impact over the lease term is the same. See page 60.

### **Bad Debt Provisions**

We are maintaining the £20m provision made in the first half of this year for potential future bad debt write-offs that *might* arise as a result of any adverse economic impact of the pandemic on consumer finances. To date, we have not seen any deterioration in overall payment rates, but there is a risk that this will change when the Government furlough and other schemes come to an end.

### **Taxation**

The Corporation Tax charge of £51m includes the following two adjustments:

1. A significant element of the property profit of £44m from the sale of the warehouse complex does not incur a tax charge. This is due to HMRC's indexation allowance and, to a lesser degree, historical capital losses.
2. The release of historical international tax provisions and prior year true ups with HMRC.

#### **Corporation Tax Effective Rate walk forward**

Profit before tax £m	342
Tax charge £m	- 51
<b>Effective tax rate</b>	<b>15%</b>
Benefit from £44m property profit	2%
Historical provision release and true ups with HMRC	2%
<b>UK headline tax rate</b>	<b>19%</b>

In the year ahead we expect our effective tax rate to be around 17.5%. This is lower than the UK headline rate of 19% due to the following tax benefits, primarily driven by the 3 March 2020 Budget announcement:

1. The Corporation Tax rate increase to 25% with effect from 2023 will require the revaluation of our net deferred tax asset. The increase in the asset position provides a one-off accounting tax rate benefit of 1%.
2. The super deduction for capital expenditure on qualifying plant and machinery results in a tax rate benefit of 0.5%.

## RECONCILIATION OF CHANGES IN GROUP SALES, COSTS AND PROFIT

The table below explains how the £736m of sales lost during the pandemic translated into a profit reduction of -£387m. It shows the year-on-year change in sales and major cost categories.

Profit impact January 2021 versus January 2020		£m
<i>Lost Retail sales</i>		- 897
<i>Gained Online sales</i>		+222
<i>Lost Finance interest and other Group sales</i>		- 61
<b>Total lost sales</b>		<b>- 736</b>
<b>Reduction in cost of stock</b>	The cost of stock reduced due to the reduction in buy budgets and stock cancellations. This was offset by non-recurring stock provisions of -£34m.	+195
<b>Reduced wages</b>	Wage costs reduced, mainly in our Retail business when stores were closed.	+130
<b>Reduced store occupancy costs</b>	Includes business rates reduction of £82m plus savings in rent and other store occupancy costs such as maintenance and utilities (see page 44).	+95
<b>Reduced marketing costs</b>	£15m saved from printing fewer catalogues, £6m saved on photography and £9m saved from the temporary suspension of marketing campaigns during the first lockdown.	+30
<b>Increased costs of Online operations</b>	Higher logistics costs due to higher Online sales. We also incurred cost increases relating to overseas freight surcharges and PPE.	- 55
<b>Property provisions and property profit</b>	Property provisions of -£100m compared to -£10m in the previous year, creating a net increase in property provisions of -£90m. This net increase in provisions was offset by £44m of property profit.	- 46
<b>Year-on-year change in profit</b>		<b>- 387</b>

# CASH FLOW, FINANCING AND NET DEBT

## HEADLINES

In the year to January 2021 we generated £521m of surplus cash before distributions, which compares with £498m in the previous year. Net debt reduced to £610m.

Cash inflows in the year were significantly enhanced by two items that compensated for the fall in profits:

- The net reduction of £206m in customer receivables.
- The sale and leaseback of our Head Office and a warehouse complex which generated a cash inflow of £110m.

£m		Jan 2021	Jan 2020
<b>Profit before tax</b>		<b>342</b>	<b>729</b>
Depreciation and property provisions		228	131
Capital expenditure	See page 25	(163)	(139)
Proceeds from sale and leaseback (net of profit gain)		110	-
Customer receivables	See page 38	206	(27)
Working capital and other		(89)	(58)
Tax paid		(113)	(138)
<b>Cash flow before shareholder distributions</b>		<b>521</b>	<b>498</b>
Ordinary dividends	See page 23	-	(214)
Share buybacks	See page 23	(19)	(300)
<b>Movement in net debt</b>		<b>502</b>	<b>(16)</b>

## Tax

HMRC have changed the timing of quarterly Corporation Tax (CT) payments so that UK businesses pay tax in the same year that the taxable profit is earned. Previously, half of the tax payment (two quarters) was deferred until the following year. This change has resulted in a one-off catch up with six tax quarters being paid this year, compared with four payments last year. In the year we paid £113m of CT, of which £60m related to the prior year and £53m related to the current year.

£m	Jan 2021	Jan 2020
Tax paid relating to prior years	60	68
Tax paid relating to current year's profit	53	70
<b>Total tax paid in period</b>	<b>113</b>	<b>138</b>



## ORDINARY DIVIDENDS AND SHARE BUYBACKS

In April last year we advised our shareholders that we would suspend all shareholder distributions until we had a better understanding of how the pandemic would impact the finances of the Group. Prior to that announcement, in early February 2020, we had bought back 279,639 shares for £19m.

The finances of the business have been very resilient and the Group's balance sheet is stronger now than at the start of the pandemic. However, there is still much uncertainty in the Retail sector and the wider UK economy. Rather than proposing a dividend at this time, the directors consider it sensible to wait and see how the business performs once the current lockdown comes to an end and COVID restrictions are lifted. In the long term we remain committed to paying dividends and returning surplus cash to our shareholders.

## CASH FLOW OUTLOOK FOR THE YEAR ENDING JANUARY 2022

Based on our central scenario, we expect to generate £175m of surplus cash after interest, tax, capital expenditure and investments, but *before* any distributions to shareholders. This surplus cash includes two significant items:

- An increase of £160m in customer receivables. This increase is based on the assumption that payment rates move back to levels closer to those experienced before the pandemic.
- £33m relates to the investment we have made in Reiss (see page 54).

£m		Jan 2022 (e)
<b>Profit before tax</b>		<b>700</b>
Tax		(113)
Capital expenditure	See page 25	(185)
Acquisition (25% of Reiss)	See page 54	(33)
Customer receivables	See page 42	(160)
Working capital and other		(34)
<b>Cash flow before shareholder distributions and bond repayment</b>		<b>175</b>

### Tax

Based on our central profit scenario of £700m, we expect to pay Corporation Tax of £113m. This is made up of two elements: (1) Corporation Tax of £133m, which is 19% of profit before tax and (2) a £20m reduction for the capital investment related *super-deduction* announced by the Chancellor in the March Budget.

#### Tax Super-Deduction: Estimated Benefit

The tax super-deduction will allow an in-year tax deduction of 130% on qualifying capital expenditure in the tax years 2021/22 and 2022/23. Based on our forecast for qualifying expenditure, we anticipate incremental cash tax savings of c.£40m over the next three years as set out in the table below:

£m	Jan 22 (e)	Jan 23 (e)	Jan 24 (e)	Total
Tax benefit	20	18	2	40

#### Tax rate change: Longer term

In the March 2021 Budget, the Chancellor also announced that the UK Corporation Tax Rate would increase from 19% to 25% from April 2023. This increase will more than offset the short term benefits of the super-deduction described above. Based on £700m of profit before tax, an increase in the UK headline rate of 6% equates to an additional £42m in cash tax payments.

## NET DEBT, BOND AND BANK FACILITIES

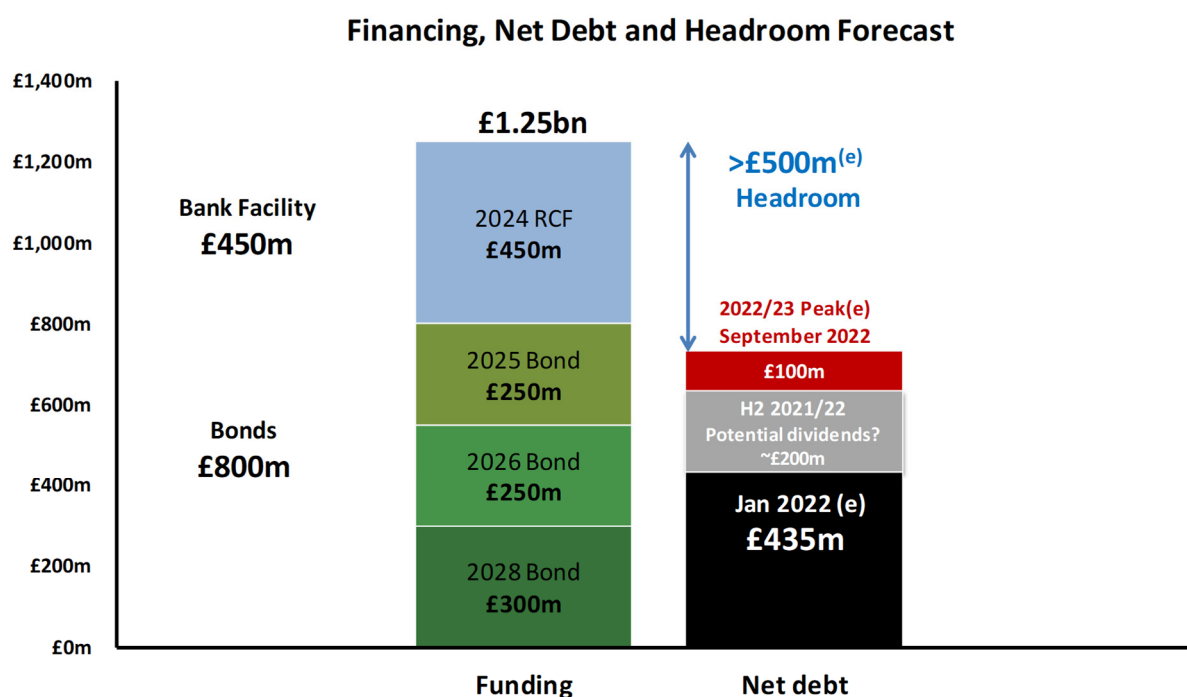
Our year end net debt at January 2021 was £610m, a reduction of £502m in the year. This is comfortably within our existing bond and bank facilities of £1,575m, with headroom of £965m at the year end.

Our existing facilities include a £325m bond which matures in October 2021. It is our intention to repay this bond without issuing a new bond to replace it, effectively reducing the gearing of the Group. Our total bond and bank facilities as at January 2022 would therefore reduce to £1,250m.

### *Outlook for Net Debt, Bond and Bank Facilities in the Year to January 2023*

Based on our central guidance for the year ahead, we expect to generate £175m of surplus cash before distribution to shareholders (see page 23). This would further reduce the Group's net debt to £435m. Even in the event that the Company decides it is appropriate to restart dividends later this year (see page 23), we estimate that the Group would still have more than £500m of headroom the following year, when net debt peaks in September 2022.

The bar chart below sets out our bond and bank facilities, following the repayment of our £325m bond in October 2021.



The Group manages the financing of its debt and liquidity to ensure it maintains its longstanding investment grade credit rating.

# CAPITAL EXPENDITURE

## SPEND BY CATEGORY

We have invested £163m in capital expenditure in the year to January 2021, an increase of £24m on the prior year. Capex by category is shown below, along with our forecast for the year ahead.

£m	Jan 2022 (e)	Jan 2021	Jan 2020
Warehouse	117	100	87
Systems	38	21	9
Retail space expansion	13	29	24
Retail cosmetic/maintenance capex	14	8	14
Head Office infrastructure	3	5	5
<b>Total capital expenditure</b>	<b>185</b>	<b>163</b>	<b>139</b>

### Warehousing

Warehousing was our biggest expenditure at £100m. This was part of a long-term investment programme to increase capacity. In the year ahead we expect warehouse investment to increase to £117m, as we incur costs relating to the fit-out of our new boxed warehouse (Elmsall 3). Planning permission for the new warehouse was granted in September 2020 and we anticipate that the warehouse will be operational in the second half of 2023/24. This first phase will provide a further +60% increase in boxed unit throughput, compared to current levels. Elmsall 3 will be highly automated and our aim is that the labour cost of Online boxed picking will be 45% lower in Elmsall 3 than in the year to January 2020.

### Systems

We invested £21m of capital in systems this year. This comprised £4m for hardware and infrastructure and £17m for software, which included the modernisation and development of three core Online systems: our website platform, warehouse systems and product systems.

As we explained in our Half Year Results, until recently almost all our systems costs were expensed as revenue costs. This has changed in recent years as the nature of our systems development has changed to include:

- Long-term software infrastructure projects to update and replace existing legacy systems
- Total Platform third-party websites that will deliver benefits over the life of the Total Platform contracts

In the year ahead we expect to increase capital expenditure on systems to £38m (£9m hardware and £29m software development).

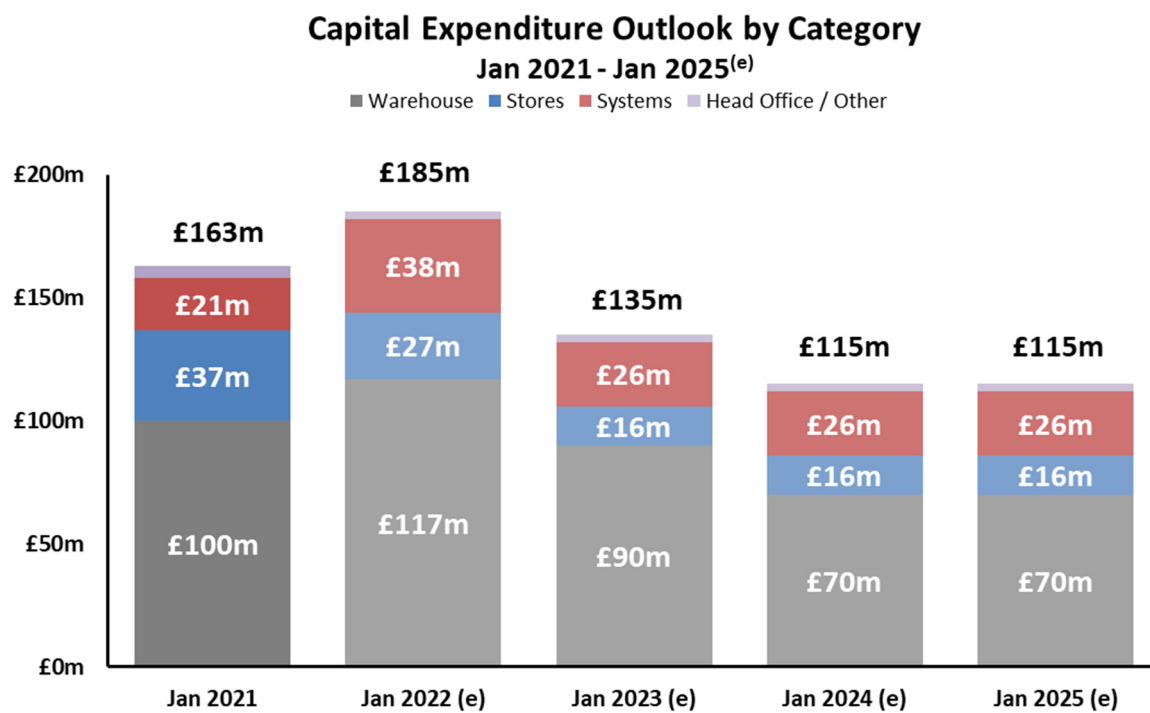
### Retail Stores

Capital spent on Retail space expansion, at £29m, was £5m higher than last year. This is primarily the result of delivering four large store re-sites, due to open in Spring 2021 (£18m) and four NEXT Beauty Halls (£8m). Investment in new space is expected to reduce to £13m in the year ahead, due to fewer new store openings.

Cosmetic and maintenance spend was £6m lower than last year as non-essential work was suspended during lockdown. In the year ahead, we expect this to increase to £14m, which would be a return to more normal levels.

## OUTLOOK FOR CAPITAL EXPENDITURE

Forecast capital expenditure to the year ending January 2025 is set out below. The warehouse expenditure which totals £447m over five years covers an extensive expansion programme to increase Online capacity. This expenditure will increase our Online warehousing capacity by around 80% from where it was during the year ended January 2020.



### Changes in Capex Outlook Since September 2020 Update

During the last six months, our five-year plan for capex spend has increased by around £90m. This is largely due to the acceleration of warehouse and systems spend (£65m). This spend is where we have identified opportunities to increase Online productivity and throughput from our existing estate. In addition, the final costings for our third boxed warehouse, Elmsall 3, is £25m more than we originally estimated. The table below shows the increase by category of spend.

Capex category	Increase
<b>Increased productivity and throughput</b>	<b>+£65m</b>
- Acceleration of investment in Home warehouse capacity	+£30m
- Automation and storage	+£15m
<b>Systems</b> - Accelerated modernisation of systems platforms	+£20m
<b>Elmsall 3 overspend</b>	<b>+£25m</b>
<b>Total change in capex five-year outlook</b>	<b>+£90m</b>

## PART 3 - DIVISIONAL FINANCIAL PERFORMANCE AND ANALYSIS

This part of the report gives a more detailed view of the financial performance of our three main trading divisions - Online, Finance and Retail. Each section gives a forward looking view of how we believe the divisions will perform in the year ahead, if we achieve the central guidance as set out on page 57. We would not normally give as much forward looking information at this level, but think it is helpful in a year where the economics of the Group have changed so much.

In addition to our main trading divisions, a brief summary of other Group companies and non-trading activities is provided at the end of this section.

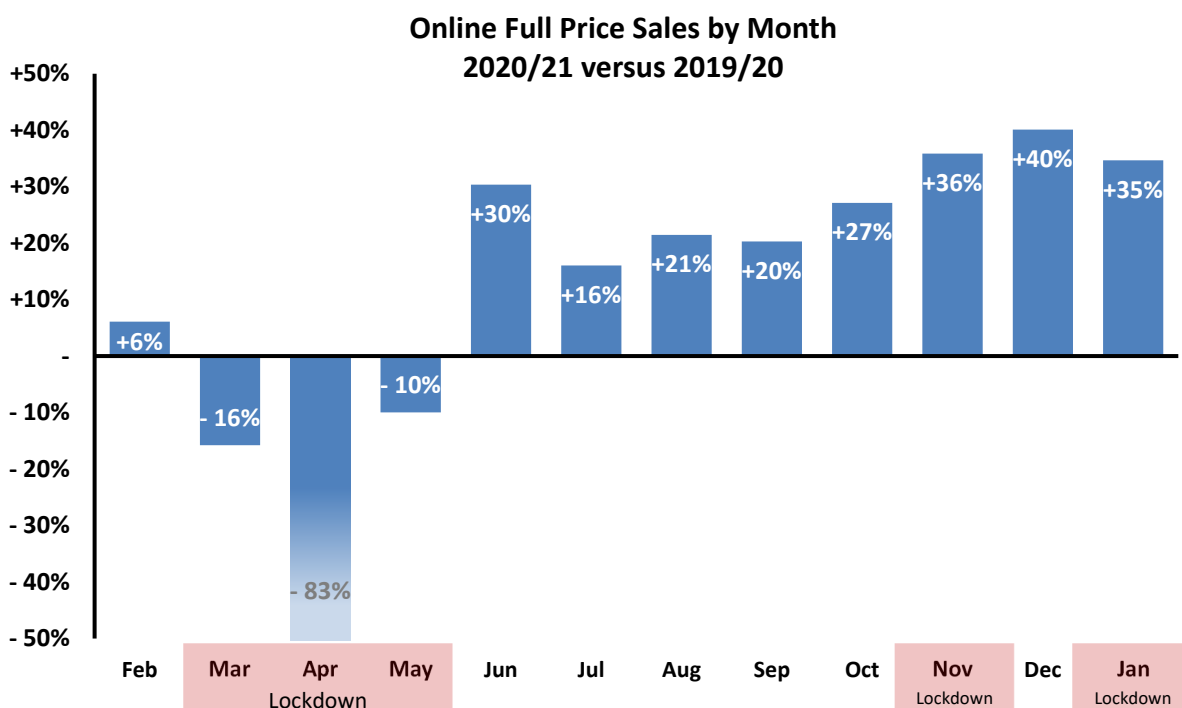
### NEXT ONLINE

#### FULL PRICE SALES

Full price sales for the year were up +13% on last year. The chart below sets out performance by month<sup>11</sup> and shows how sales improved as the year progressed. The months that were severely affected by national lockdowns are highlighted in pink.

##### *Full Price Sales Phasing*

At the beginning of the pandemic in March 2020, we temporarily closed our warehouse operation to make it COVID safe. On reopening in April, picking capacity was gradually increased and was back to more normal levels during May. June benefited from the pent-up demand experienced post-lockdown. November, December and January were particularly strong as Online benefitted from the closure of Retail stores during lockdown.

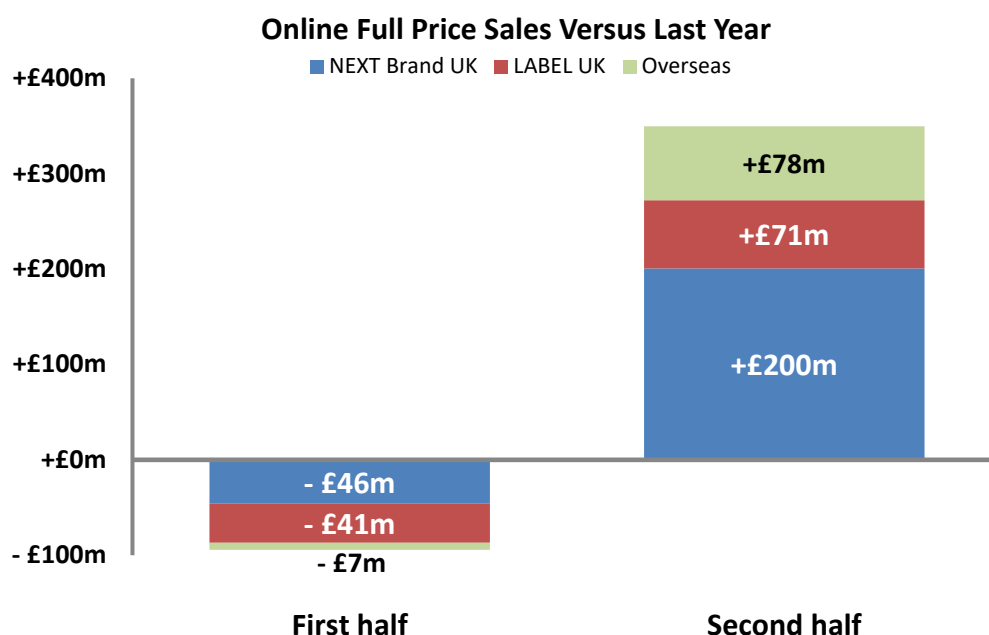


<sup>11</sup> January includes the 53<sup>rd</sup> week of sales, therefore in the chart we have included an additional comparative week in the prior year to provide a more like-for-like sales performance for January.

### Full Price Sales by Division

The table below sets out the full price sales performance by division for the full year and each half of the year. Sales in all divisions stepped forward considerably in the second half and we have shown the sales performance by half in the last two columns of the table. The second half figures are not quite as good as they look, as the addition of the 53rd week boosted sales in the second half by +4%.

Full price sales £m	Jan 2021	Jan 2020	Var %	1st half var %	2nd half var %
NEXT Brand UK	1,177	1,022	+15%	- 10%	+36%
LABEL UK	464	434	+7%	- 21%	+30%
<b>Total UK Online</b>	<b>1,641</b>	<b>1,456</b>	<b>+13%</b>	<b>- 13%</b>	<b>+34%</b>
Overseas	506	436	+16%	- 3%	+35%
<b>Total Online full price sales</b>	<b>2,147</b>	<b>1,892</b>	<b>+13%</b>	<b>- 11%</b>	<b>+34%</b>



### Full Price Sales by Account Type

UK credit customers still accounted for the largest proportion of full price sales (53%), but UK cash<sup>12</sup> customers and Overseas customers delivered the highest rates of growth. This increase in cash account sales was driven by a significant increase in customer numbers (page 29).

Full price sales £m	Jan 2021	Jan 2020	Var %	1st half var %	2nd half var %
UK credit customers	1,133	1,131	+0%	- 21%	+18%
UK cash customers	508	325	+56%	+16%	+88%
<b>Total UK full price sales</b>	<b>1,641</b>	<b>1,456</b>	<b>+13%</b>	<b>- 13%</b>	<b>+34%</b>
Overseas cash customers	506	436	+16%	- 3%	+35%
<b>Total Online full price sales</b>	<b>2,147</b>	<b>1,892</b>	<b>+13%</b>	<b>- 11%</b>	<b>+34%</b>

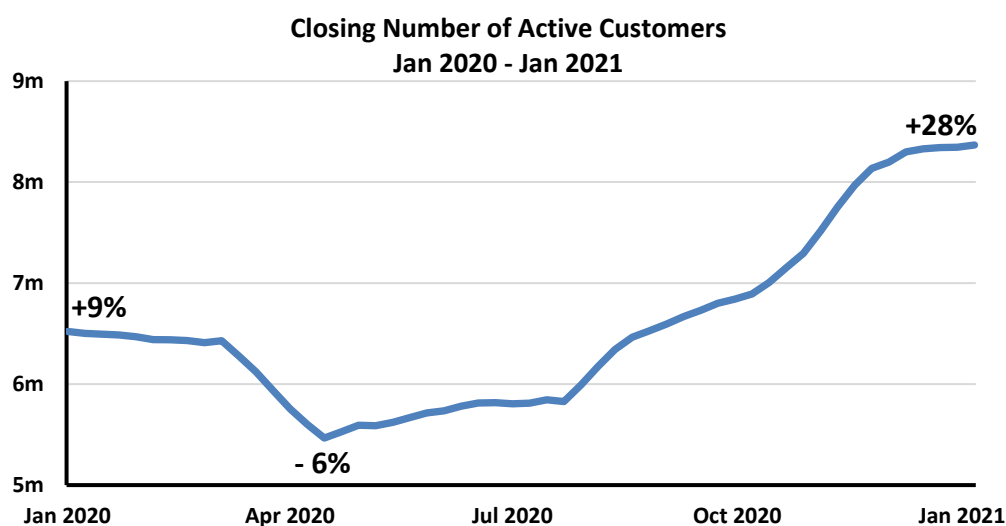
<sup>12</sup> Cash customers are those who do not use a NEXT credit account when ordering. All Overseas accounts are cash accounts.

## ONLINE CUSTOMER BASE AND CUSTOMER PROFITABILITY

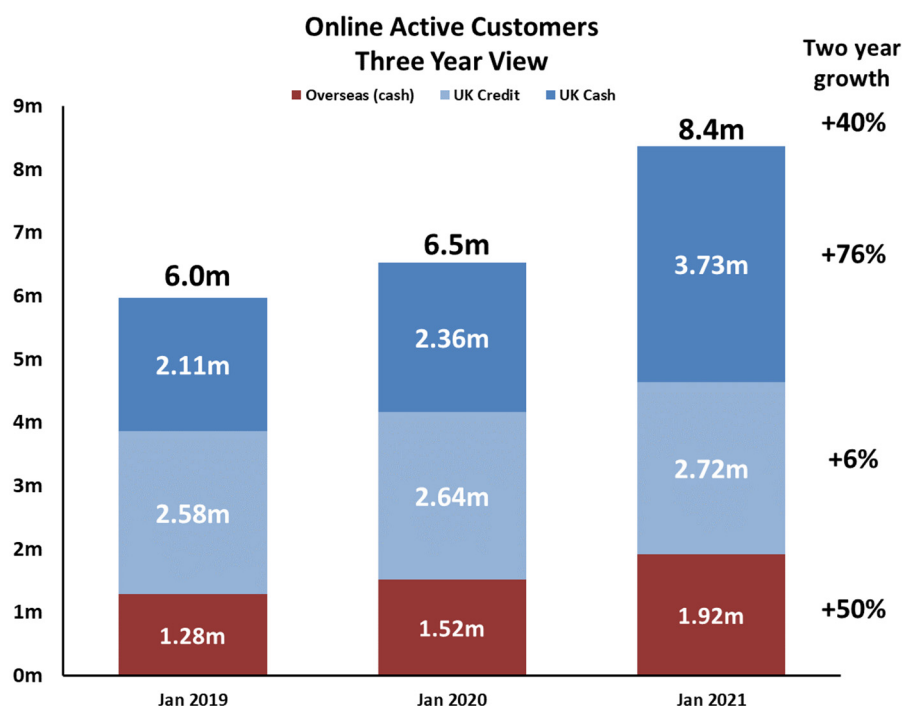
### *Customer Base Throughout the Year*

The temporary closure of our Online operations during the first lockdown meant that we lost customers at that time. Even once we were open, capacity constraints meant that we suspended recruitment activity until such time as we had the capacity to service demand.

However, from June onwards we re-activated our Online marketing and, from that point onward, we experienced a sharp recovery in our credit and cash customer base. Our Online customer base ended the year at 8.4m up +28% on the prior year and up +40% on two years ago.



The chart below shows how our customer base has developed over the last two years. Growth is shown for active<sup>13</sup> UK credit and cash customers in blue and Overseas customers in red. The two year growth of each segment is shown to the right of the last bar.



<sup>13</sup> Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.



### Customer Profitability

Given the very large increase in the participation of cash and Overseas customers. It is worth outlining profitability of each customer type. The table below shows the profitability, as a percentage of Online sales, for each customer segment. The first column shows the profitability for the Online business only, the second column adds the finance profit for credit customers to show their total profitability including credit.

Profitability by customer category	Online margin %	Online + Finance profit as a % of Online sales	Average VAT ex. sales per customer
UK cash (3.73m)	26%	26%	£227
UK credit (2.72m)	19%	27.5%	£490
Overseas cash (1.92m)	16%	16%	£313
<b>Total (8.4m)</b>	<b>20%</b>	<b>24%</b>	

Before accounting for any finance profit, cash customers are significantly more profitable than credit customers. This is mainly because they are more selective when ordering and so return stock at a much lower rate than credit customers. (Cash customers order more selectively because they do not have the try-before-you-buy facility built into our credit account). In addition, credit customers tend to buy more lower margin (but higher priced) third-party branded stock.

Once the finance profit is added, credit customers are only marginally (1.5%) more profitable than cash customers, and the main advantage of recruiting credit customers is that it facilitates higher sales per customer (as shown in the final column of the table).

## ONLINE PROFIT AND NET MARGIN

### Profit and Net Margin by Division

The table below sets out the sales, profit and margin for our Online business broken down between (1) the sale of NEXT branded stock in the UK, (2) The sale of third-party branded stock in the UK through LABEL and (3) Overseas.

Online division	Total sales £m	Profit £m	Margin %	Change in margin vs Jan 20
NEXT Brand UK	1,319	315	23.9%	+2.9%
LABEL UK	520	72	13.9%	- 1.3%
Overseas	529	85	16.0%	- 0.4%
<b>Total Online</b>	<b>2,368</b>	<b>472</b>	<b>19.9%</b>	<b>+1.3%</b>

The movement in margins in each division are shown in the right hand column and are explained as follows:

- **NEXT Brand UK** profitability improved due to savings made in catalogue production and online marketing.
- **LABEL UK** profitability declined due to poorer clearance rates of Sale stock in the first half. Though it is important to note that the margin in the second half improved to 16% and was in line with the prior year.
- **Overseas** margin declined due to increased, COVID related, distribution surcharges.

### Overall Online Margin Analysis

Overall Online margin improved from 18.6% to 19.9%. The margin impact of major cost categories is summarised below.

Net margin on total sales to January 2020		18.6%
<b>Bought-in gross margin</b>	Underlying bought-in margin was flat on last year.	0.0%
<b>Stock and fabric provisions</b>	Increased stock and fabric provisions reduced margin (see page 19).	- 0.8%
<b>Lower surplus</b>	Full price sales grew by +13% but surplus stock was down -10%. So despite lower clearance rates of surplus stock, margin improved.	+0.3%
<b>Customer compensation</b>	Higher customer service and complaint resolution costs caused by the disruption of lockdown.	- 0.3%
<b>Catalogues &amp; photography</b>	Reduced book volumes and savings in catalogue production improved margin.	+1.2%
<b>Marketing</b>	The temporary suspension of marketing campaigns in the first half meant digital marketing fell as a percentage of sales.	+0.7%
<b>Systems</b>	Systems revenue costs were lower than last year, boosting margin. Overall spend on systems was up +£11m (+18%) but £14m of Online software costs were capitalised this year (see page 25).	+0.4%
<b>Warehousing &amp; distribution</b>	Margin was reduced by: (1) freight surcharges levied during the pandemic to deliver parcels to customers overseas (-0.5%), (2) overseas administrative, duty and customs costs (-0.4%) and (3) COVID related operating costs such as PPE, warehouse fit-out costs and temporary storage (-0.2%).  This margin erosion was offset by efficiencies from lower Online return rates and better warehouse productivity (+0.9%).	- 0.2%
Net margin on total sales to January 2021		19.9%

## OUTLOOK FOR ONLINE SALES AND PROFIT IN THE YEAR AHEAD

In our central scenario for the year ahead, we are forecasting for full price sales to be up +31% on 2019/20 (two years ago), this represents an increase of +17% on last year. Total sales, including markdown and Online Total Platform sales, would be up +30% on two years and +18% on last year.

We anticipate that Online net margin will be 20%, which is broadly in line with the last twelve months and an improvement on the 18.6% margin achieved in 2019/20. The main reason for this margin improvement versus 2019/20 is that we are no longer printing and distributing catalogues, which will save around £30m compared with two years ago.

Forecast sales, profit and margins are set out below for the year ending January 2022 along with comparisons with the previous two years. The second table shows operating margins by division.

Online sales, profit and margin	Jan 2022 (e)	Jan 2022(e)		Jan 2020	Jan 2022(e) vs 2 years
		Jan 2021	vs 1 year		
Total sales £m	2,793	2,368	+18%	2,147	+30%
Profit £m	560	472	+19%	400	+40%
Operating margin %	20.0%	19.9%	+0.1%	18.6%	1.4%

Online margin by division	Jan 2022 (e)	Jan 2022(e)		Jan 2020	Jan 2022(e) vs 2 years
		Jan 2021	vs 1 year		
NEXT UK	25%	23.9%	+1.1%	21.0%	+4.0%
LABEL UK	15%	13.9%	+1.1%	15.2%	- 0.2%
Overseas	15%	16.0%	- 1.0%	16.4%	- 1.4%
Total	20%	19.9%	+0.1%	18.6%	+1.4%

## FOCUS ON LABEL

LABEL now sells over 1,300 women's, men's, children's, home and beauty brands, with the lion's share (98%) of full price sales coming from around 500 brands.

### Full Price Sales by Product Category

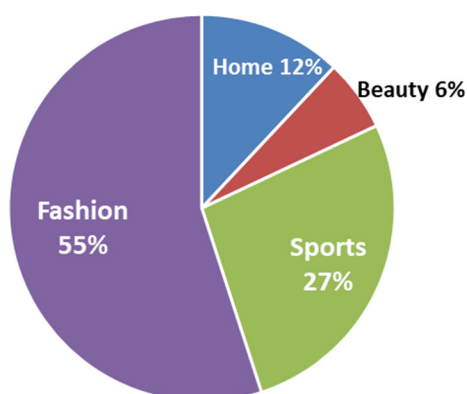
The table below sets out LABEL's sales performance by major category. LABEL's first half was hampered by a combination of (1) the two week closure of our Online business and subsequent capacity constraints, (2) stock shortages in key product categories, particularly sportswear, and (3) the weighting of many of LABEL's clothing ranges to formalwear, which has underperformed since the beginning of lockdown.

These issues were largely corrected for the second half, and performance significantly improved, with Home and Beauty doing particularly well. The table below splits out the first and second half performance in the final column.

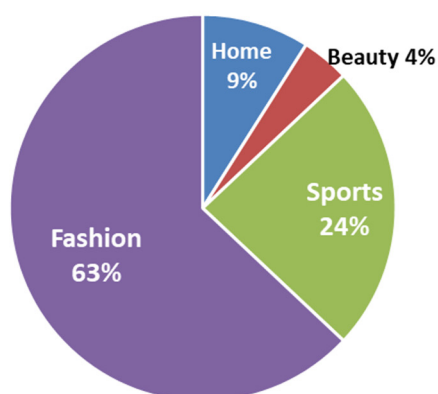
Full price sales £m	Jan 2021	Jan 2020	Var %	First half var %	Second half var %
Fashion: clothing, footwear and accessories	254	274	-8%	- 34%	+15%
Sports	124	106	+18%	- 7%	+39%
Home	57	37	+55%	+27%	+78%
Branded Beauty	29	17	+73%	+19%	+108%
<b>Total full price sales</b>	<b>464</b>	<b>434</b>	<b>+7%</b>	<b>- 21%</b>	<b>+30%</b>

As a result of changes in the year, LABEL's product assortment has diversified and become less reliant on fashion, as demonstrated in the following pie charts.

LABEL Full Price Sales by Category  
Year to January 2021



LABEL Full Price Sales by Category  
Year to January 2020



## ***LABEL Drivers of Growth***

The following four developments served to accelerate the growth of LABEL as the year progressed:

- Expanding our ranges in **Home**
- The rapid growth of **Branded Beauty**
- Developing **Platform Plus**, which has allowed us to significantly increase the breadth of offer with over 190 brands
- Developing **licensed** product ranges in conjunction with partner brands.

### ***Growing our Branded Home Business***

Our Branded Home business had a strong year and full price sales increased by +£20m (+55%). We achieved significant growth through the Platform Plus model, where stock is offered on the NEXT website but held in our partners' warehouses.

We have expanded our Branded Home product categories to include kitchen, lighting, wall art, wallpaper and paint. In existing areas such as textiles (which includes bedding, curtains, rugs and cushions) we have new brand partners and have been able to offer a wider choice in design and price points. Branded furniture now includes categories such as garden furniture, divan beds and mattresses.

In the year ahead we anticipate full price sales in Branded Home to be around £75m, with profit of c.£13m.

### ***Branded Beauty***

The Branded Beauty business continues to deliver strong sales growth. Overall, full price sales increased by +£12m; with £6m of the additional sales coming from new brands and £6m from brands that have traded with us for over a year. In the year ahead, we anticipate full price sales of around £42m. New brands continue to be added in 2021, including many of the market's top premium beauty brands.

### ***Platform Plus***

Our Platform Plus model allows customers to order items stocked in our partners' warehouses, which significantly increases the breadth of offer from participating brands. Platform Plus functions in two ways:

- **Delivered by NEXT:** These items are collected from our partners' warehouses and delivered through our logistics network, so that they can be consolidated with other items in the same order.
- **Direct Despatch:** These are large Home items that are despatched directly to the customer by third-party brands through their own carrier networks. In the year ahead, some of our most important Direct Despatch furniture brands will switch to despatching items directly to customers using NEXT's two-man delivery fleet. This should reduce costs for our suppliers and give us greater control over service levels.

The following table sets out this year's growth in brands and sales for both categories of Platform Plus. This now accounts for £67m (14%) of LABEL sales, compared with £25m (6%) last year. We expect this area of our business to continue to see strong growth and, in the year to January 2022 we are budgeting sales to be around £110m, up +64% on this year.

Platform Plus category	Jan 21 No. of brands	Jan 20 No. of brands		Jan 21 £m sales <sup>14</sup>	Jan 20 £m sales	
Delivered by NEXT	96	44	+118%	29	11	+164%
Delivered by brand	97	69	+41%	38	14	+171%
<b>Total</b>	<b>193</b>	<b>113</b>	<b>+71%</b>	<b>67</b>	<b>25</b>	<b>+168%</b>

### *Wholesale and Commission Sales*

Nearly 60% of full price sales were achieved through brands that operate on a commission basis. As summarised below, commission sales grew faster than wholesale brands and were up +11%.

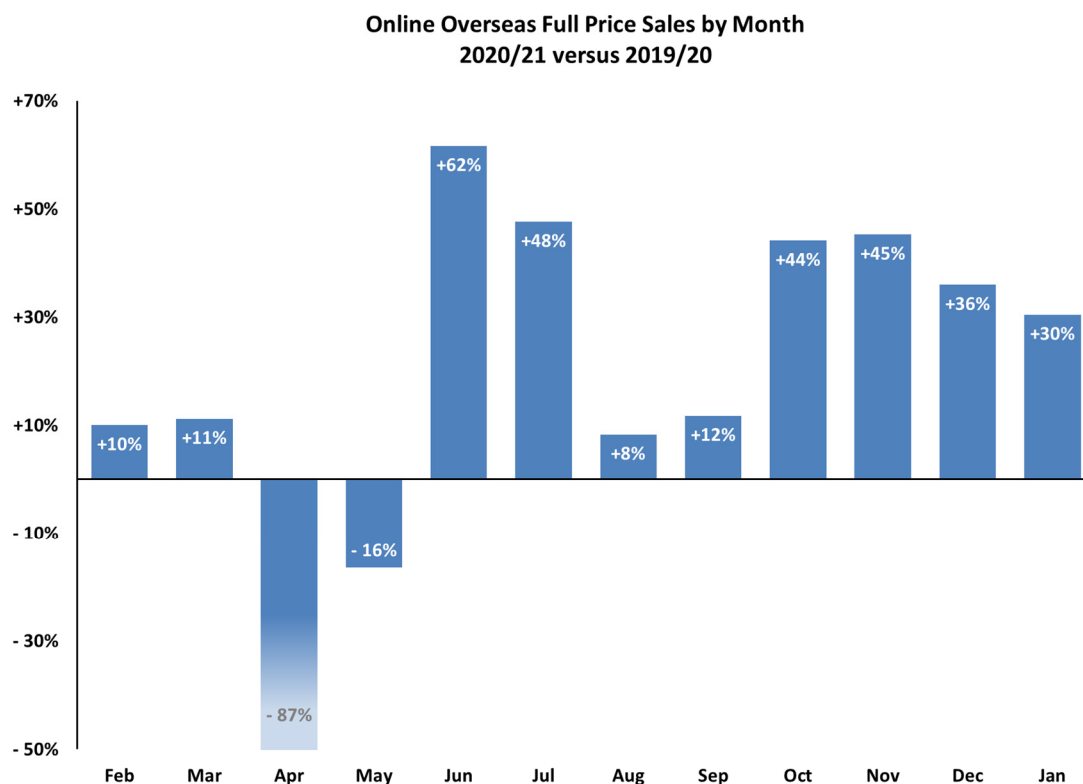
Full price sales £m	Jan 2021	Jan 2020 <sup>15</sup>	Var %	First half var %	Second half var %
Wholesale	191	188	+1%	-22%	21%
Commission	273	246	+11%	-20%	37%
<b>LABEL full price sales</b>	<b>464</b>	<b>434</b>	<b>+7%</b>	<b>- 21%</b>	<b>+30%</b>

<sup>14</sup> Platform Plus sales and brands for Jan 2020 have been restated. Sales of some NEXT products that are Direct Despatch are no longer being classified under Platform Plus because their sales are reported within NEXT UK, not LABEL UK.

<sup>15</sup> Please note that the table categorises sales according to whether a brand was trading as wholesale or commission in the year ended January 2021, therefore prior year figures are restated to give a like-for-like brand performance.

## FOCUS ON ONLINE OVERSEAS

Full price sales performance in the Overseas business strengthened following disruption to sales in the first quarter. Sales in the second half were up +35%, with the additional 53rd week<sup>16</sup> boosting this figure by +4%. Full price sales in the year were up +16%.



### Full Price Sales via NextDirect.com and Third-Party Websites

The table below summarises the full price sales performance on our own nextdirect.com website and through third-party aggregators such as Zalando (including Zalando Fulfilment Solutions), Otto and others.

The third-party sites are divided into those that were discontinued, those that were new and those that traded continuously. Growth in continuous third-party sales was particularly strong throughout the year, finishing up +39%.

Full price sales £m	Jan 2021	Jan 2020	Var %	1st half % var	2nd half % var
Third-parties					
New	7	-			
Discontinued	-	3	- 100%		
Continuous	49	35	+39%	+45%	+34%
<b>Total third-parties</b>	<b>56</b>	<b>38</b>	<b>+48%</b>	<b>+55%</b>	<b>+43%</b>
nextdirect.com	451	398	+13%	- 9%	+34%
<b>Total Overseas full price sales</b>	<b>507</b>	<b>436</b>	<b>+16%</b>	<b>- 3%</b>	<b>+35%</b>

<sup>16</sup> January includes the 53<sup>rd</sup> week of sales, therefore in the chart we have included an additional comparative week in the prior year to provide a more like-for-like sales performance for January.



## FOCUS ON ONLINE WAREHOUSE CAPACITY

### *Coping with Online Sales Growth*

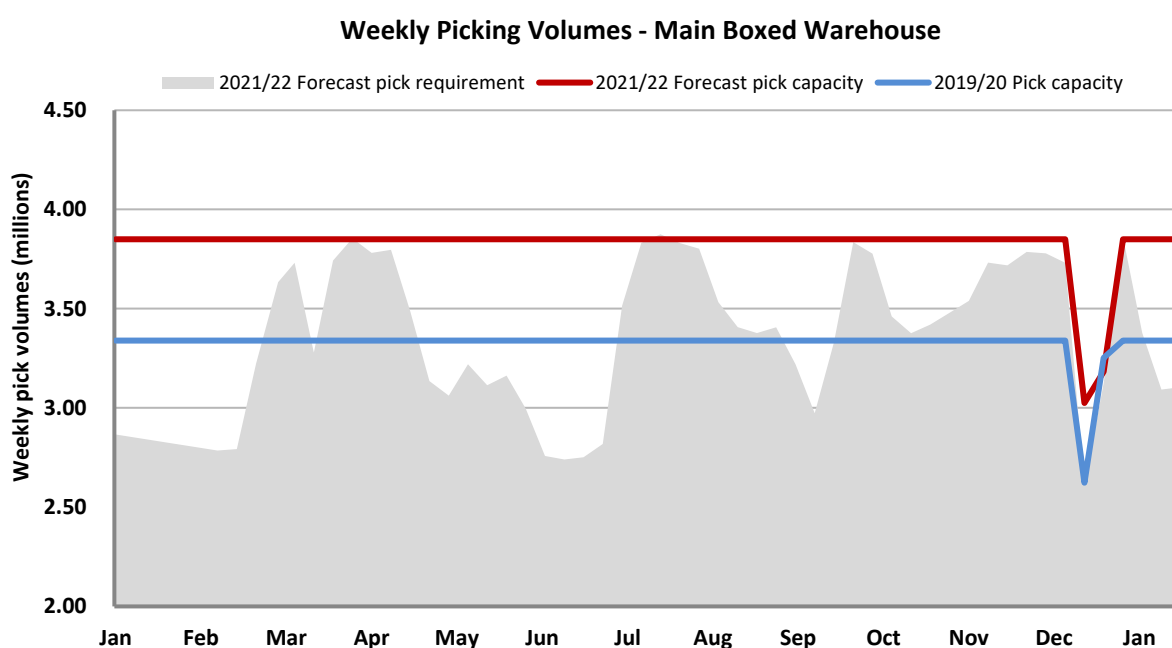
The significant growth in Online sales along with social distancing rules created considerable challenges for our warehouse operations. We benefited from a number of changes to improve output:

- We have invested around £100m over the last two years delivering various **capital projects to both** improve storage capacity and throughput. These projects benefited our Online operation during 2020, including:
  - A new automated storage and retrieval system for boxed returns
  - Additional Online packing capacity
  - New reserve storage capacity in our boxed warehouses.
- We realigned **staff shift patterns** to make maximum use of the warehouse during the quieter times of the day.
- We reallocated as much **space** and as many **staff** from Retail facilities to support our Online operations. We used our store network and staff to support certain simpler warehouse activities at peak times, particularly during the end-of-season Sale.
- When necessary, we limited the availability of **markdown** stock for sale on the website. This allowed us to maximise full price demand.

Through the pandemic, we have discovered that there is one other (reluctant) lever that we can pull to boost warehouse throughput. Moving our delivery promise from next-day to 48hrs allows us to maximise output in the early hours of the day that would otherwise be short of work. Whilst this measure would be a last resort, it gives us some comfort that we have options if we hit capacity at peak times next year.

### *Warehouse Pick Capacity Growth in 2021/22*

In the year ahead we plan to further increase our picking capacity in our main boxed warehouse. The graph below shows our forecast weekly pick capacity in 2021 (red line) and 2019 (blue line) along with our forecast picking requirement for the year ahead (the grey shaded area).



# NEXT FINANCE

## HEADLINES

- Credit sales down -9%.
- Average receivables down -11%.
- NEXT Finance profit before cost of funding was **£160m** down -12% on last year.

## FINANCE PROFIT AND LOSS ACCOUNT

The table below sets out the performance of the Finance business in the 53 weeks to January 2021 compared to the 52 weeks to January 2020. Lower credit sales, which were down -9%, drove down average customer receivables, which were further reduced by an additional £20m bad debt provision taken in respect of a possible deterioration in bad debt in the year ahead.

£m	Jan 2021	Jan 2020	Var %
<i>Note of credit sales</i>	<i>1,592</i>	<i>1,748</i>	<i>- 9%</i>
<i>Average customer receivables</i>	<i>1,050</i>	<i>1,185</i>	<i>- 11%</i>
Interest income	250	269	- 7%
Bad debt charge	(51)	(43)	+17%
Overheads	(39)	(43)	- 8%
<b>Profit before cost of funding</b>	<b>160</b>	<b>183</b>	<b>- 12%</b>
Cost of funding	(48)	(36)	+33%
<b>Net profit</b>	<b>112</b>	<b>147</b>	<b>- 23%</b>
ROCE (after cost of funding)	10.7%	12.4%	
Closing customer receivables	£1,028m	£1,234m	- 17%

### *Interest Income*

Interest income was down -7% on last year. This is 4% ahead of average customer receivables, which were down -11%. The difference between the growth in interest income and receivables is because:

- The 53rd week added 2% to annual interest income
- 2% of the decrease in the average receivables was not a cash loss and came as the result of an additional £20m bad debt provision (see below).

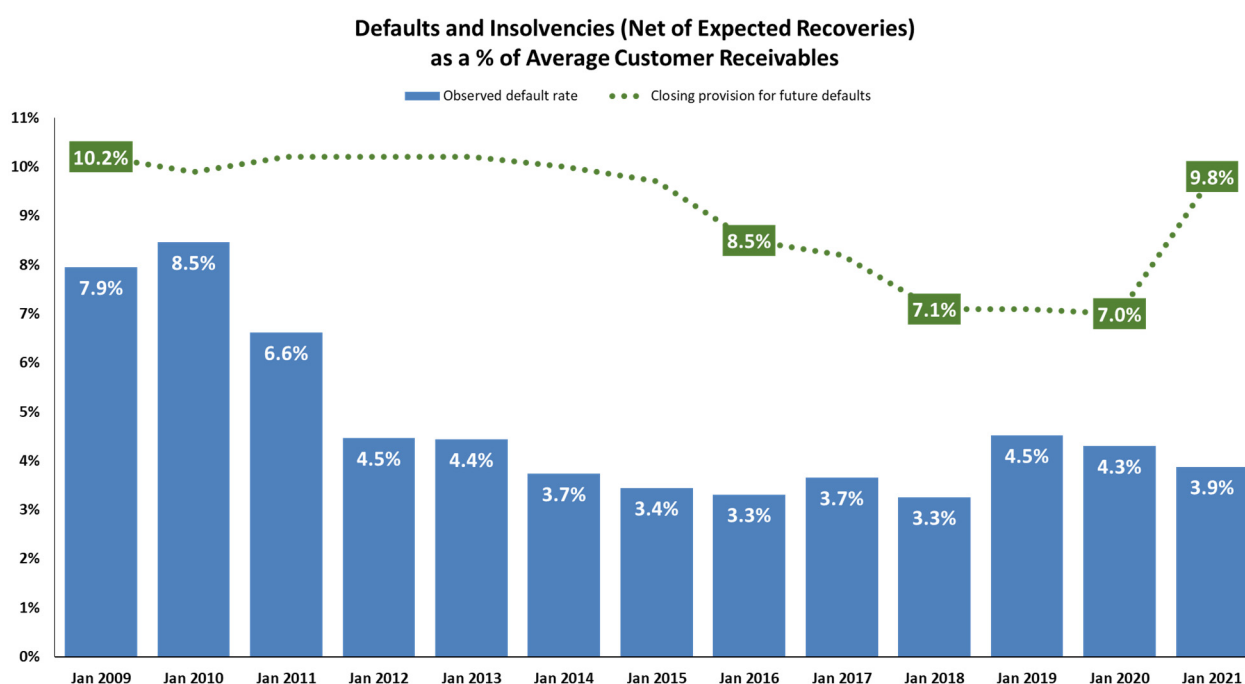
## Bad Debt

The bad debt charge of £51m was +£8m higher than last year. The table below shows the key movements in the bad debt charge from last year.

Bad debt walk forward	£m
Bad debt charge at prior year's rate (3.7% of average receivables balance)	(39)
Lower provision from faster payments (reducing balances in arrears)	3
Sale of debt previously written off	5
Provision for potential defaults resulting from COVID	(20)
<b>January 2021 bad debt charge</b>	<b>(51)</b>

Last year we saw no evidence that overall bad debt was increasing as a result of the pandemic, indeed, on average, customers accelerated the rate at which they paid down their balances. However, there is a reasonable chance that defaults could increase once Government support schemes such as furlough and payment deferrals end. So we have retained the additional £20m provision for future losses that we charged in the first half of the year.

The chart below shows our observed rate of default as a percentage of customer receivables since 2009. The dotted line shows our closing *provision* for future defaults in those years. The graph demonstrates the significant step up in our provision last year.



## Cost of Funding

### The Nature of This Charge

The cost of funding increased by +33% to £48m, despite the -11% reduction in average customer receivables. The increase in the funding rate is an internal recharge, and the increased cost for the Finance business is matched by an increase in income for the Group. So whilst the recharge serves to give a more meaningful picture of the underlying profitability of our Finance business, the change in rate has not affected the overall profit of the Group.

### Calculating the Cost of Funding

The charge is based on the assumption that the Finance business funds 85% of its receivables balance with debt from the Group. The interest charge is calculated using the average interest rate incurred by the Group. The calculations for the cost of funding and the interest applied are set out in the tables below.

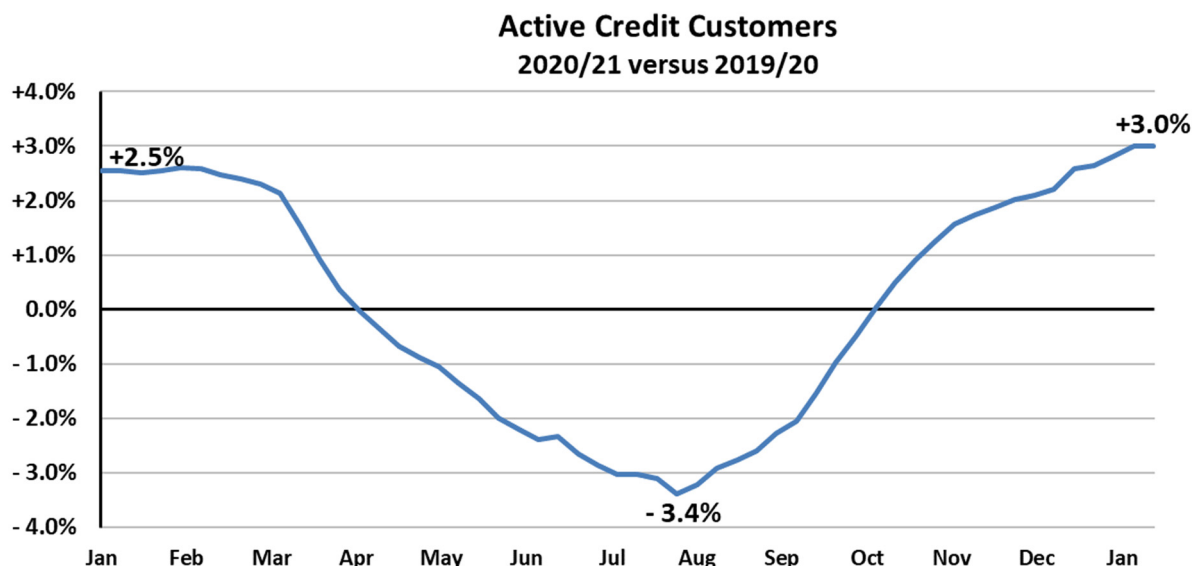
Cost of funding calculation	Jan 2021	Jan 2020	Var %
Average customer receivables	£1,050m	£1,185m	- 11%
Debt funding %	85%	85%	
<b>Customer receivables funded by debt</b>	<b>£892m</b>	<b>£1,008m</b>	<b>- 11%</b>
Group interest rate %	<b>5.3%</b>	<b>3.6%</b>	
<b>Cost of funding for 12 months</b>	<b>£48m</b>	<b>£36m</b>	<b>+33%</b>

The Group's average interest rate rose from 3.6% to 5.3%. This increase is because the Group has less debt overall, and a greater proportion of debt was financed by higher interest bonds than lower interest borrowing through the Revolving Credit Facility (RCF). The calculation is shown in the table below.

Group interest % calculation	Jan 2021	Jan 2020	Var %
Bond	£1,125m	£1,052m	
RCF less cash on deposit	(£333m)	£152m	
<b>Average net debt</b>	<b>£792m</b>	<b>£1,204m</b>	<b>- 34%</b>
Total net interest charge	£42.2m	£43.6m	- 3%
<b>Group interest rate %</b>	<b>5.3%</b>	<b>3.6%</b>	<b>+47%</b>

## CREDIT CUSTOMERS

The number of active credit customers at the end of the year was up +3.0% on last year.<sup>17</sup> At the beginning of the year, the number of active credit customers was up +2.5% but declined to -3.4% during the pandemic. The recovery in the second half has been mainly driven by the return of existing customers who had become inactive during the first lockdown.



The table below shows the opening, average and closing number of active customers against last year.

Credit customers ('000)	Jan 2021	Jan 2020	Var %
Opening actives	2,643	2,578	+2.5%
Average actives	2,584	2,582	+0.1%
Closing actives	2,722	2,643	+3.0%
Credit sales per average active (£ VAT Ex)	£616	£677	- 9.0%
next3step (included in closing actives)	125	45	+175.0%
next3step as % of closing actives	4.6%	1.7%	

### next3step

next3step was relaunched to new customers in January 2020. This credit product allows customers to pay no interest on purchases if they pay off at least a third of the purchase price each month. next3step is fully regulated by the FCA and customers' creditworthiness is assessed on recruitment and monthly thereafter. Around 30% of new credit customers choose next3step, which is around 2,000 customers per week. In the 53 weeks to January 2021, sales on next3step totalled £41m, which represents 2.6% of credit sales.

<sup>17</sup> The number of active credit customers is provided at the close of Week 53 and comparison is given to Week 52 in the prior year.

## PROFIT OUTLOOK FOR THE YEAR AHEAD

Our central guidance assumes a Finance profit of £116m. The table below shows our guidance for the year ahead compared to last year, and two years ago. We are forecasting credit sales to be up +17% against last year, with the majority of the growth coming in the first half, as sales come up against soft comparative numbers. However, we anticipate that this sales increase will take time to flow through into customer receivables.

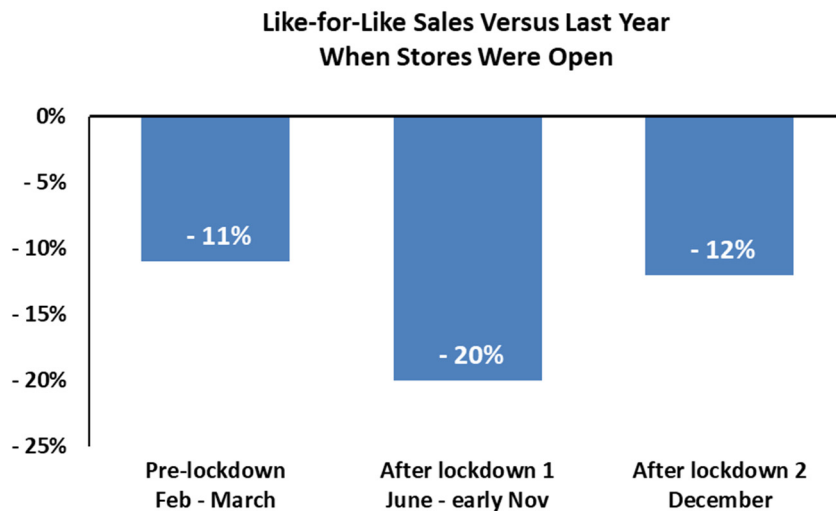
The cost of funding, as a percentage of average receivables, is expected to marginally increase on last year as the effect of last year's reduction in debt annualises.

£m	Jan 2022 (e)	Jan 2021	Jan 2022(e) vs 1 year	Jan 2020	Jan 2022(e) vs 2 years
<i>Note of credit sales</i>	<i>1,868</i>	<i>1,592</i>	<i>+17%</i>	<i>1,748</i>	<i>+7%</i>
<i>Average customer receivables</i>	<i>1,072</i>	<i>1,050</i>	<i>+2%</i>	<i>1,185</i>	<i>- 10%</i>
Interest income	248	250	- 1%	269	- 8%
Bad debt charge	(37)	(51)	- 27%	(43)	- 15%
Overheads	(43)	(39)	+9%	(43)	+0%
<b>Profit before cost of funding</b>	<b>168</b>	<b>160</b>	<b>+5%</b>	<b>183</b>	<b>- 8%</b>
Cost of funding	(52)	(48)	+10%	(36)	+46%
<b>Net profit</b>	<b>116</b>	<b>112</b>	<b>+3%</b>	<b>147</b>	<b>- 21%</b>
ROCE (after cost of funding)	10.8%	10.7%		12.4%	
Closing customer receivables	£1,188m	£1,028m	+16%	£1,234m	- 4%

# NEXT RETAIL

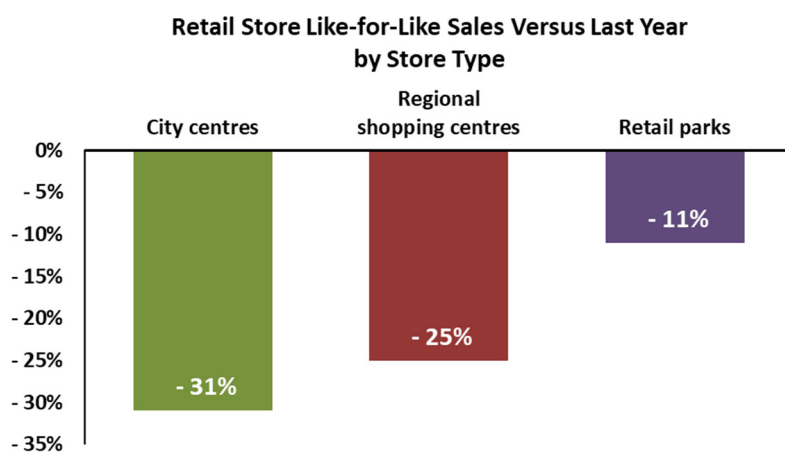
## FULL PRICE SALES

Full price sales in the year were down -48% on last year. On a like-for-like basis, comparing sales to the prior year only on the days that stores were trading outside of lockdown, full price sales were **down -18%**. The chart below shows how like-for-like sales varied between the three periods when stores were able to trade.



### *Store Performance by Location*

Sales performance varied significantly according to the location of stores, with stores in out-of-town retail parks performing much better than those in city centres and regional shopping centres. The bar chart below shows the like-for-like sales performance by store location. Going into the year, 62% of Retail's sales came from stores in retail parks, therefore we were well placed to cope with the change in shopping habits during the pandemic as customers preferred out-of-town locations, while city centres suffered from the loss of office workers and general footfall.



**Participation of Retail sales  
going into lockdown**



## RETAIL PROFIT & LOSS

Total sales (including markdown sales) were down -48% resulting in a loss of -£206m.

£m	Jan 2021	Jan 2020	Var %	Var £m
Total sales	955	1,852	- 48%	- 897
Operating profit/(loss)	(206)	164	- 226%	- 370

The following table sets out the change in sales and major costs versus last year.

Profit impact January 2021 versus January 2020		£m
Full price sales		- 802
Markdown sales		- 95
<b>Total lost sales</b>		<b>- 897</b>
<b>Reduction in cost of stock</b>	Stock cancellations at the start of the pandemic and lowering of budgets for the remainder of the year resulted in £320m less being spent on stock. This reduction is net of non-recurring stock provisions and write-offs (-£12m).  Underlying bought-in margins remained flat on last year.	+320
<b>Reduced wages</b>	During lockdowns almost all Retail store staff and support teams were furloughed. Costs incurred in Retail stores providing Online services during lockdowns were recharged to the Online business.	+114
<b>Reduced store occupancy costs</b>	The rates holiday generated a saving of £82m. Rents were £14m lower than last year, due to rent reductions negotiated at lease renewals (£10m) and stores closures (£4m). Maintenance, service charges and utilities costs fell by £12m.  Rent savings were offset by a £7m loss of rental income from concessions and the addition of a 53rd week increased occupancy costs by £6m.	+95
<b>Store impairment</b>	We impaired store assets by £18m, compared with £4m in the prior year. (In addition to store impairment, an £82m provision for onerous leases was made in the Property Management division of the Group, see page 49.)	- 14
<b>Other operational cost savings</b>	These savings include savings made in Retail logistics, store consumables and central overheads.	+12
<b>Year-on-year change in profit</b>		<b>- 370</b>



## RETAIL SPACE

In the year to January 2021 net retail space increased by +44,000 square feet but the number of stores reduced by seven. The year-on-year change in store numbers and square footage is set out below. The main addition to space this year has been the opening of four NEXT Beauty Halls.

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
<b>January 2020</b>	<b>498</b>	<b>8,031</b>	<b>361</b>	<b>8,392</b>
New mainline stores	+ 2	+ 9	+ 11	+ 20
New NEXT Beauty Halls	+ 4	+ 166	+ 3	+ 169
Mainline closures	- 18	- 190		- 190
Clearance stores	+ 5	+ 43	+ 2	+ 45
<b>January 2021</b>	<b>491</b>	<b>8,059</b>	<b>377</b>	<b>8,436</b>
Change	- 7	+ 28	+ 16	+ 44
Change %		+ 0.3%	+ 4.4%	+ 0.5%

### Closures

We closed 18 mainline stores after their leases had expired. The stores fall into three categories:

- **Low profitability** stores where stores were loss making or were expected to become loss making in the near future.
- Stores in locations we trade more than one shop and believed we could increase profit by consolidating sales into one location.
- Forced closures where landlords did not wish to renew the lease.

Reason for store closure	No.	Store turnover (pre-COVID)	Store profit	Store profit %
Low profitability	10	£21m	£1.5m	7%
Consolidation	5	£13m	£2.3m	18%
Forced closures	3	£7m	£1.4m	19%
<b>Total</b>	<b>18</b>	<b>£41m</b>	<b>£5.2m</b>	<b>13%</b>

### Outlook for Retail Space During 2021/22

We anticipate that Retail space will remain broadly flat in the year ahead. This is due to a combination of seven store re-sites that will increase square footage by around 40,000 and the closure of six stores that will reduce square footage by broadly the same amount of space.

## LEASE RENEWALS AND COMMITMENTS

### *Lease Renewals in the Year Ended January 2021*

We renewed 62 store leases for an average lease term of three years. Annualised rent costs reduced on average by -58%, saving £9.7m.

As shown in the table below, only 22 leases (35%) were agreed on the basis of a fixed rental charge. Seven were short term leases agreed on a rent-free basis, where we will only pay business rates and service charge where applicable. The remaining 33 leases are linked to store turnover, providing the necessary flexibility to ensure that we can keep them open.

We renewed eleven leases on the basis of a 'total occupancy' deal, where we will pay the landlord a set percentage of turnover to cover rent, business rates and service charge. The figures below recognise the entire value of this deal as a rent saving.

New lease category	No. of leases	Rent before renewal	Rent after renewal	
Fixed rent charge	22	£5.2m	£3.0m	- 42%
Zero rent	7	£1.5m	£0.0m	- 100%
Rent linked to store turnover	33	£10.0m	£4.0m	- 60%
<b>Total</b>	<b>62</b>	<b>£16.7m</b>	<b>£7.0m</b>	<b>- 58%</b>
<b>Rent saving</b>			<b>£9.7m</b>	
Rent-free incentive / capital contributions			£4.8m	
Average lease term (to earlier of break or lease end)			3 years	

We continue to invest in stores where we have renewed the lease. We received £4.8m of capital contributions or rent-free incentives from our landlords and, in total, we will invest £6.1m upgrading these stores.

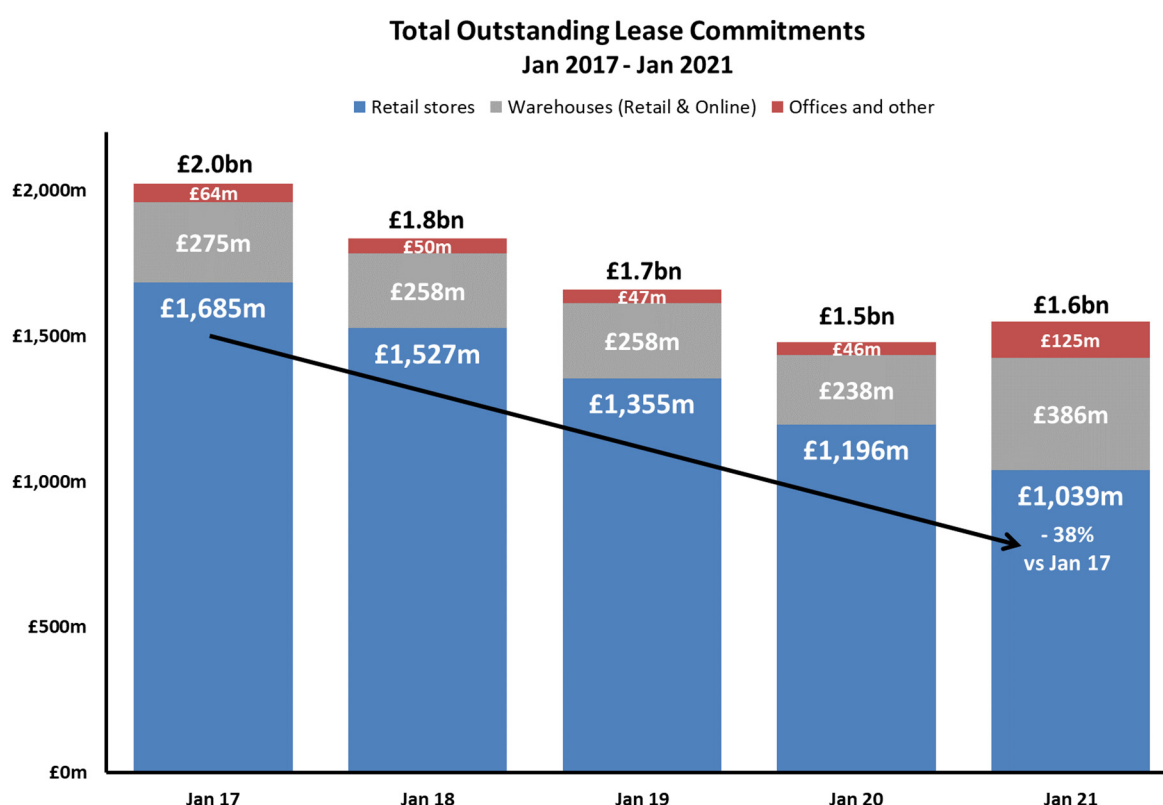
### *Forecast Lease Renewals for the Year Ending January 2022*

We expect to renew 56 store leases in the year ahead with an average lease term of three years. We anticipate rent reductions of -47%, delivering annualised savings of £7m.

### Five Year History of Outstanding Lease Commitments

Our Retail store lease commitments (undiscounted) continue to fall as lease renewals are negotiated on lower costs and relatively short lease terms (on average, around three years). At the end of January 2021 our average lease commitment (weighted by value) was 5.5 years, compared with 5.9 years at the same time last year.

The chart below shows a five year history of our total undiscounted lease commitments, for Retail stores, central warehouses, offices and other leases and demonstrates the dramatic reduction in the Group's exposure to Retail rents. Retail store lease commitments have reduced by -£646m since January 2017, a reduction of 38%.



In the same period, lease commitments for warehouses and offices have increased by £111m and £61m respectively. These increases are mainly due to the sale and leaseback transactions completed earlier this year.

## THE OUTLOOK FOR RETAIL SALES AND PROFIT IN THE YEAR AHEAD

### Central Scenario Sales and Profit

We are forecasting for Retail full price sales to be down -20% on a like-for-like basis versus 2019/20 (two years ago). In addition to like-for-like declines, stores are expected to be closed for the ten week lockdown between February and April. This means that total full price retail sales will be down -34% on two years ago. Total sales, including markdown sales, are forecast to be down -32%.

The anticipated sales, costs and profit for the year ahead are given in the table below versus 2019/20. As can be seen, all costs are falling, although not in line with the sales reduction of -32%. We therefore expect Retail to make a loss of -£20m.

£m	Jan 2022(e)	Jan 2020	Var £m	Var %
<b>Total sales</b>	<b>1,253</b>	<b>1,852</b>	<b>(599)</b>	<b>- 32%</b>
Achieved margin	712	1,099	(387)	- 35%
Occupancy costs	(350)	(465)	115	- 25%
<i>Rent and service charge</i>	<i>(178)</i>	<i>(201)</i>	<i>23</i>	<i>- 11%</i>
<i>Maintenance, utilities and consumables</i>	<i>(66)</i>	<i>(74)</i>	<i>8</i>	<i>- 11%</i>
<i>Depreciation</i>	<i>(58)</i>	<i>(90)</i>	<i>32</i>	<i>- 36%</i>
<i>Rates</i>	<i>(48)</i>	<i>(100)</i>	<i>52</i>	<i>- 52%</i>
Payroll	(160)	(210)	50	- 24%
Warehouse & distribution	(105)	(119)	14	- 12%
Central costs	(117)	(141)	24	- 17%
<b>Profit/(loss)</b>	<b>(20)</b>	<b>164</b>	<b>(184)</b>	<b>- 112%</b>

### Non-Recurring Items in Retail

Within the forecast loss of -£20m, we are accounting for the fact that most of our Retail stores will be closed for c.10 weeks. We estimate that this will result in lost sales of around c.£250m and margin of c.£135m. This loss is offset by: (1) business rates relief of c.£48m and (2) a £17m reduction in central costs, which will be re-allocated to our Online business in line with its sales participation of the Group. The net impact of these non-recurring items is to reduce profit by -£70m. So excluding these non-recurring items underlying Retail profit would have been forecast at £50m.

£m	Profit impact
Impact of February - April c.10 week lockdown	(135)
Business rates relief	48
Other costs	17
<b>Retail profit impact from non-recurring items</b>	<b>(70)</b>
<b>Underlying Retail profit excluding non-recurring items</b>	<b>50</b>

However, it is important to stress that although the lockdown might have cost Retail £70m of lost profit, the cost to the *Group* was considerably less, as many of the lost Retail sales have been recovered through our Online business.

## OTHER BUSINESS ACTIVITY

The profits and losses from other business activities, including our other Group trading companies and non-trading activities, are summarised below along with estimates for the year ahead.

£m	Jan 2022 (e)	Jan 2021	Jan 2020
NEXT Sourcing (NS)	27.0	17.8	32.0
Lipsy	14.0	5.2	13.0
Lipsy - Victoria's Secret Joint Venture	6.0	0.5	0.0
Franchise and Retail International	5.0	3.4	6.2
Property management	8.0	(39.9)	(2.2)
Central costs and other non-trading activities	(30.0)	(29.8)	(23.4)
<b>Total profit / (loss)</b>	<b>30.0</b>	<b>(42.8)</b>	<b>25.6</b>

NEXT Sourcing, Lipsy and our Franchise business all experienced significant reductions in profit due to the fall in sales this year. We anticipate that these will recover in the year ahead.

Central costs were £7m higher than last year due mainly to changes to actuarial assumptions for the defined benefit pension scheme and a higher cost of employee share schemes.

### Property Management

Property management reported a loss of -£40m in the year. This is mainly due to the net effect of two significant items:

1. Onerous lease provisions of -£82m. This charge relates to expected future cash losses in 55 Retail stores over the remaining terms of their leases. This provision has been driven by the significant fall in Retail sales during the COVID pandemic and our projection for sales over the next ten years.

In our central scenario for 2021/22 we are forecasting Retail full price sales to be down -34% on 2019/20 (i.e. two years ago, pre-COVID). This decline in sales includes the ten week closure at the start of the year. (On a *like-for-like* basis sales would be down -20% on 2019/20). We have assumed that the sales lost from the temporary closures during February to April 2021 will be recovered in 2022 but like-for-like sales will be down -6% and then continue to fall by -6% per annum for the following eight years.

2. Property profit gain of +£44m from the sale and leaseback of a warehouse complex.

In the year ahead we expect a profit of £8m, mainly from the warehouse sale and leaseback.

### Interest

Net interest was £42.2m compared to £43.6m last year, on average net debt that was down -34%. In the year ahead we are forecasting an interest charge of £38m, a reduction of -£4.2m against the previous year, mainly due to the fact that we intend to repay (and not refinance) the £325m bond that falls due in October 2021 (page 24).

## PENSION SCHEME

On the IFRS accounting basis, the valuation of our defined benefit schemes moved from a surplus of £133m at January 2020 to a surplus of £99m at January 2021. Further detail is provided in Note 6 of the Financial Statements.

A full actuarial valuation of our defined benefit pension scheme was undertaken as at 30 September 2019 and showed a deficit of £19m. The position when rolled forward to 31 December 2020 was a deficit of £7m. We have paid a £24m contribution into our pension schemes this year.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Shareholder expectations and regulatory changes in relation to ESG matters have increased significantly over the last couple of years. Throughout 2020, we have built on the extensive work we already undertake as a responsible business to ensure we respond to these expectations. We have made some good progress on the ESG goals we had previously set ourselves and during 2020 we established some new, more demanding targets.

Our ESG priorities are summarised below. These and many other aspects of our work in the ESG arena will be covered in detail in our Annual Report, published on 20 April 2021.

### *Carbon Emission Reduction*

By 2030 we aim to:

- reduce our direct and indirect (from NEXT energy consumption) emissions by **55%** against a 2016/17 baseline.
- reduce our other indirect emissions from NEXT's operations by **40%** against a 2019/20 baseline per £1m sales.

These reduction targets for carbon emissions are consistent with the Science Based Target Initiative to reduce emissions in line with the Paris Agreement.

### *Climate Change*

In 2020 we became a signatory to the British Retail Consortium's Climate Action Roadmap, a framework to guide the industry to **net zero emissions by 2040**.

### *Responsible Sourcing/Operational Waste*

It is our ambition to source **100%** of the main raw materials we use through known, responsible or certified routes. By 2025 we aim to:

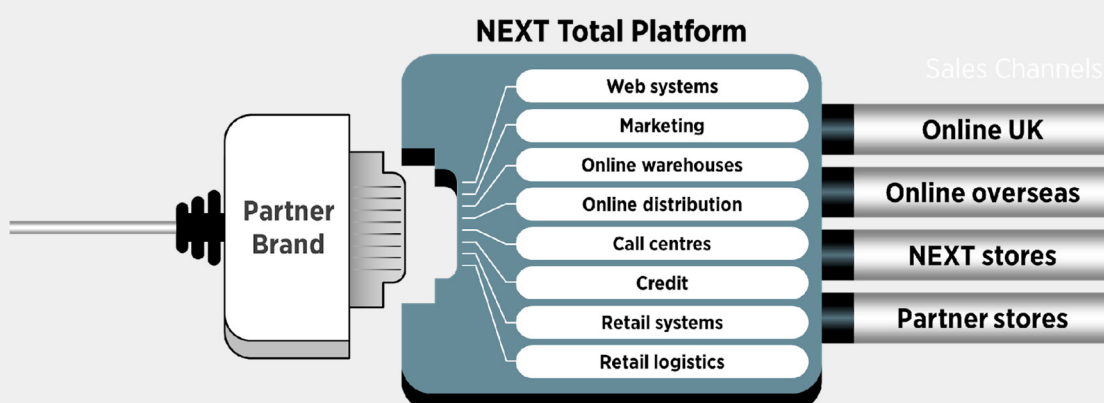
- eliminate avoidable plastics in product packaging.
- source 100% of cotton only from Better Cotton Initiative, recycled, Certified Organic or Fairtrade Certified sources.

## PART 4 - TOTAL PLATFORM

In our Half Year Report in September we described our new Total Platform business in detail and we have included an excerpt from that report in the box below as a reminder of the rationale of the business. In this section we provide a more detailed update on how Total Platform is developing, the clients we are working with and the equity investments we have made as a result.

### CONCEPT - A REMINDER

The aim of Total Platform is to allow clients to grow their business without the capital costs, operational risks and management time associated with developing increasingly complex and expensive infrastructure. No one starts a new brand because they are passionate about warehousing and data protection! Total Platform allows brands to focus on the things they love doing and where they can add the most value - building their product ranges and developing their brand.



Total Platform services include: website systems, an online marketing platform, warehousing for boxed, hanging and palletised products, distribution networks (including to our c.500 stores), returns handling, call centre services, account management systems, payment systems, credit facilities, data management and security systems, international websites and other online infrastructure along with our marketing and operational know-how. We have recently extended the scope of our services to include retail warehousing and distribution alongside the use of our proprietary point-of-sale software.

Total Platform is a **pay-as-you-go** answer to operating an online business. Clients pay through a simple commission on sales, so there are no uncomfortable step-change increases in fixed costs and no capital requirements to support growth. No one needs reminding that fashion is a volatile business and the variable cost base also serves to protect the client should they have a difficult year. And, of course, the commission model has one other vital function: it aligns our interests with those of our clients; if they do well, so do we.

In addition, Total Platform can provide clients who operate retail stores with retail warehousing, distribution, in-store stock systems and till systems.

## NEW CLIENTS

We are now working with five Total Platform clients: Childsplay Clothing, Laura Ashley, Victoria's Secret, a new brand<sup>18</sup> start-up that will launch in September (referred to as 'NewBrand') and Reiss. The table below sets out the timescales for implementation and any equity interest we have acquired in the client.

Client	Target Launch Date	Equity Interest	Description
<i>Childsplay</i>	Live Oct 2020		Online luxury childrenswear
<i>Laura Ashley</i>	Live Mar 2021		Iconic home and fashion brand
<i>Victoria's Secret UK and Eire</i>	May 2021	51% share in UK JV with LBrands	Global lingerie, clothing and beauty brand
<i>NewBrand</i>	Oct 2021	33%	
<i>Reiss</i>	Feb 2022	25% with option to buy a further 26%	Affordable luxury men's and women's apparel brand



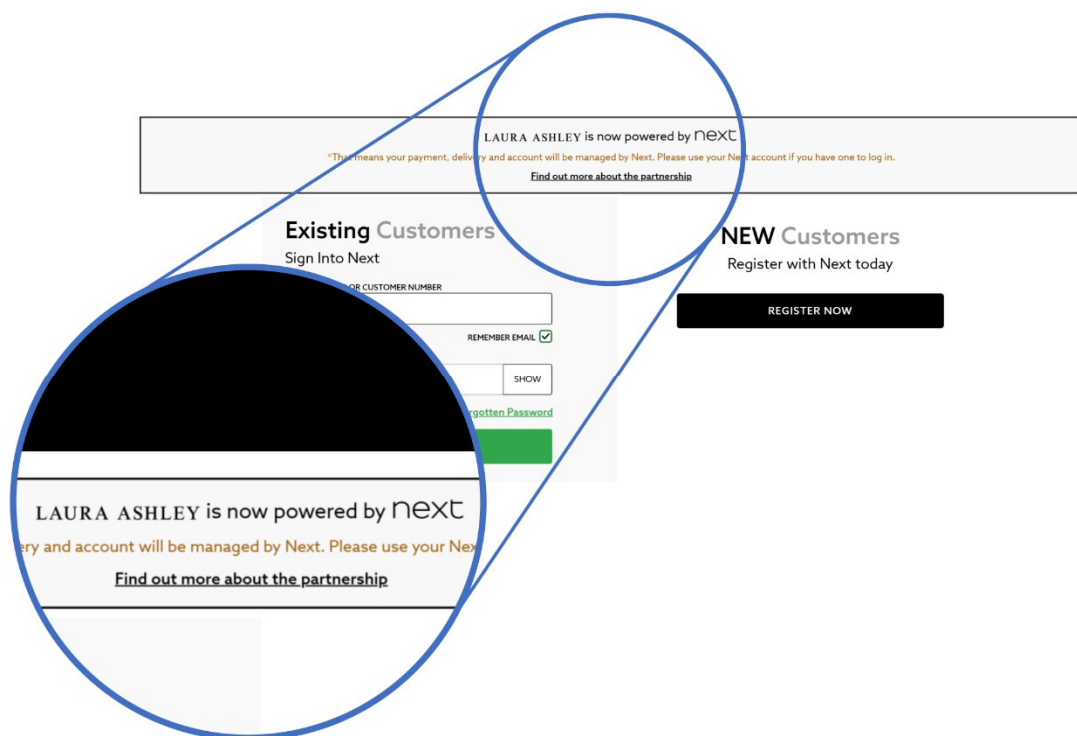
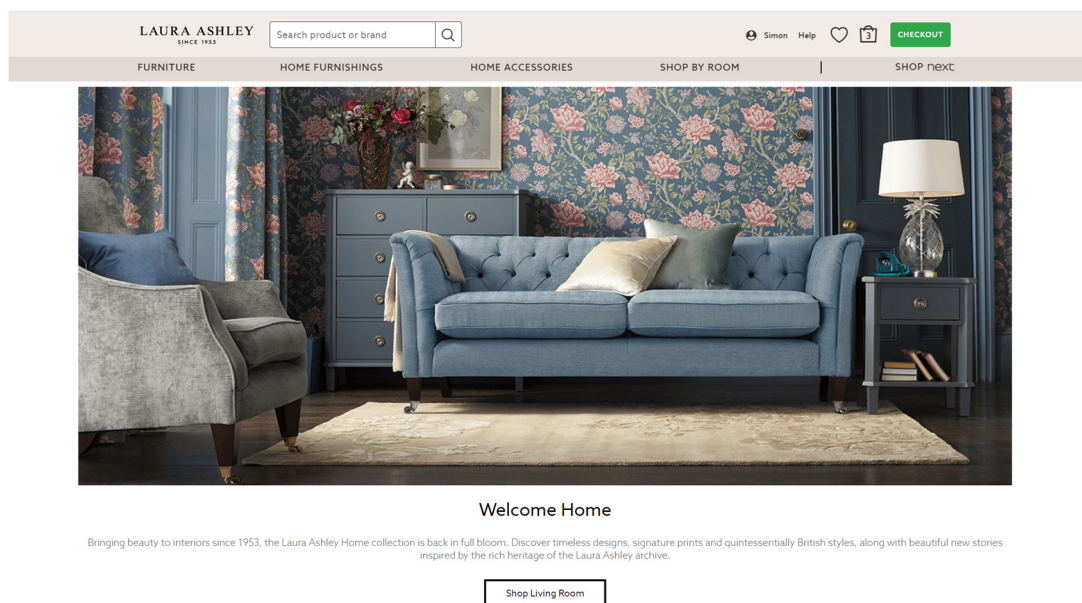
<sup>18</sup> A new start-up brand will be launching in the second half of 2021. Their brand name is confidential and will not be shared in this report and we refer to them as NewBrand.



## TOTAL PLATFORM LIGHT

In the course of tailoring Total Platform to cater for the differing timescales and requirements of our new clients, we have developed two slightly different models. The original Total Platform delivers a customer experience completely independent of NEXT, with every touch point (ordering, checkout, packaging, call centre services, etc.) branded for the client in such a way that the customer has no sense that the operations are being managed by NEXT.

Two of our clients (Laura Ashley and NewBrand) have opted for a different approach. The customer will still experience a unique client-branded home page (see image below) and search results will only return the client's products. However, these web pages effectively sit in a ring-fenced area of the main NEXT website, and when customers go to checkout they check out through NEXT (see second image below) and the product is fulfilled by NEXT in our packaging.



Total Platform Light does not deliver the full brand experience of Total Platform but it has a number of big advantages.

- It is much **quicker** and simpler to implement, so brands that are in a hurry can go live in three to six months.
- The cost of implementation is a third to a fifth of full Total Platform, so the commission for Total Platform Light is considerably **cheaper** than full Total Platform.
- Any of our 6.5m **UK NEXT customers** can sign into the Total Platform Light using their NEXT credentials and, if they are credit customers, pay for goods using their **nextpay** account.

## MARGIN AND RETURN ON CAPITAL

Our target margin for Total Platform is 5%-8% of our client's online business. The larger the client's turnover and the simpler its operations, the lower our margin will be. Retail services are charged on a cost plus basis.

The estimated annualised *online* turnover of all five clients, in their first full year of operation, is £200m (please note that some brands will launch earlier than others, so this turnover will not all fall in the same financial year). The collective Total Platform profit for these clients anticipated to be £10m in their first full year of operation.

## EQUITY

### *The Rationale of an Equity Investment*

Although Total Platform delivers a reasonable margin and very healthy return on capital invested, we believe the returns will be much higher for our clients, if we can deliver anything like the growth and operating efficiencies planned. For that reason, we thought it sensible to have a stake in that upside and have agreed to invest in a minority stake in most of our new clients.

As stated above, all five new clients are expected to deliver around **£10m** of profit in their first year of operation. However, the additional profit from our equity share in just three of these clients (which includes a share of their retail and wholesale profits) is estimated to be in the region of **£20m** in the first year of operation (NB most of this profit will fall in the year ending January 2023).

The maths of equity participation is very compelling, and it is possible that Total Platform benefits the Group more through its ability to add value to equity investments, than it does through the profit it delivers on the service contracts.

## ***The Types of Brand We Would Invest In***

We believe that there are two key criteria which need to be satisfied before investing in any business - they must be great brands and be businesses to which we can add value.

### ***Excellent Brands***

Businesses we invest in must be great brands, and that means they must conform to the following three characteristics:

<b>A Clear Brand Proposition</b>	Brands where both consumers and employees understand what the brand means, what it stands for, and where it sits in the market.
<b>Good Online Economics</b>	Brands that deliver online margins commensurate with the risks involved in trading a fashion brand online. Essentially the higher the average selling price and the lower the returns rate, the more profitable a brand is likely to be.
<b>Customer Goodwill</b>	Brands whose core customers love what they do and want them to succeed.

### ***Businesses Where We Can Add Value***

We need to be sure that we can add significant value to the brands we invest in. We believe that the value created will mainly come from the infrastructure, service levels and know how that comes with Total Platform. But for some partners, our other systems, property expertise and sourcing base might also add significant value.

### ***The Rationale of Part Acquisitions versus 100% Takeover***

Given how compelling these equity investments appear, some might ask: why are we only buying part of a business, rather than the whole? The disadvantages of a part purchase are lack of day to day control along with the potential to be “dragged along” into a sale of our stake. We believe that, on balance, the advantages of part purchase significantly outweigh the disadvantages of owning a minority stake for the following two reasons:

#### ***Diversifying Risk***

Through buying smaller parts of many businesses we diversify the impact of any one of them having a ‘fashion accident’. It is less risky to own 20% of ten brands than 100% of two.

To some extent this approach goes right to the heart of the Total Platform concept. Total Platform removes operating leverage from individual fashion brands. NEXT takes on that volatility risk but can mitigate it by spreading across a number of different clients.

#### ***Avoiding the Retail Conglomerate***

We want the businesses we invest in to continue to think and act like independent companies, with their own culture, point of view and approach to fashion. It is our belief that independence of thought and freedom of action go right to the heart of any fashion business. It is important that those who live and breathe the company feel part of something special and distinct.

The mentality of people who work for mono-brand businesses is very different from those who are part of a giant conglomerate; they tend to have a much greater affinity and loyalty to the brand. That mentality is particularly important at the very top of the company.

Looking at the same issue from the opposite perspective, the acquisition of many minority stakes in independently run businesses, reduces the risk that NEXT’s management will get sucked into the day to day management of the acquired businesses which would detract from our focus on NEXT.

## NEXT STEPS

Many of our shareholders have asked where we see Total Platform in ten years' time. The answer is that we do not yet know; in the same way we could never have imagined the contribution LABEL would make to the business if we had sat down and attempted to model its future ten years ago. The reality is the future success of Total Platform will depend most on the effectiveness with which we implement these first five contracts. So in the year ahead we have three objectives for Total Platform:

- Execute well and ensure that we maximise the success of the five contracts we have in place.
- Ensure that in building these platforms we create software that is reusable for new clients going forward. In effect taking bespoke models and designing them to enable mass production.
- Ensure that we really understand the economics of the business. Of course we have built detailed cost and operating models, but you never quite know how costs will turn out until operations are live.

# PART 5 - SALES AND PROFIT OUTLOOK FOR 2021/22

## HEADLINES

- Total Brand full price sales guidance remains unchanged and flat against 2019/20 (a two-year comparison).
- The anticipated end of the third lockdown in April<sup>19</sup> is two weeks later than we had allowed for in our previous guidance. However, the profit lost from those additional two weeks, has been offset by the benefit of the extension of business rates relief announced in March.
- In the first eight weeks of the year, Online sales have been stronger than expected and are up more than +60% on two years ago. This overachievement plus the expected transfer of sales from Retail during the additional two weeks of lockdown, are expected to add £30m of profit. As a result, we are raising our central profit guidance by £30m from £670m to **£700m**.

Our central scenario for full price sales and profit by business division is set out in the tables below.

Full price sales £m	Jan 2022 (e)	Jan 2022 (e) % vs 2 years
Online	2,477	+31%
Retail	1,091	- 34%
NEXT Finance interest income	248	- 8%
<b>Total full price sales</b>	<b>3,816</b>	<b>0%</b>
<b>Total Brand sales</b>	<b>4,294</b>	<b>+1%</b>

Profit/(loss) before tax £m	Jan 2022 (e)	Jan 2022 (e) % vs 2 years
Online	560	+40%
Retail	(20)	- 112%
NEXT Finance	116	- 21%
Other Group	44	+140%
<b>Total Group profit before tax</b>	<b>700</b>	<b>- 4%</b>

<sup>19</sup> This refers to the end of the lockdown in England (which represents around 85% of our retail sales). The end of lockdown in parts of Scotland, Northern Ireland and Eire will follow later.

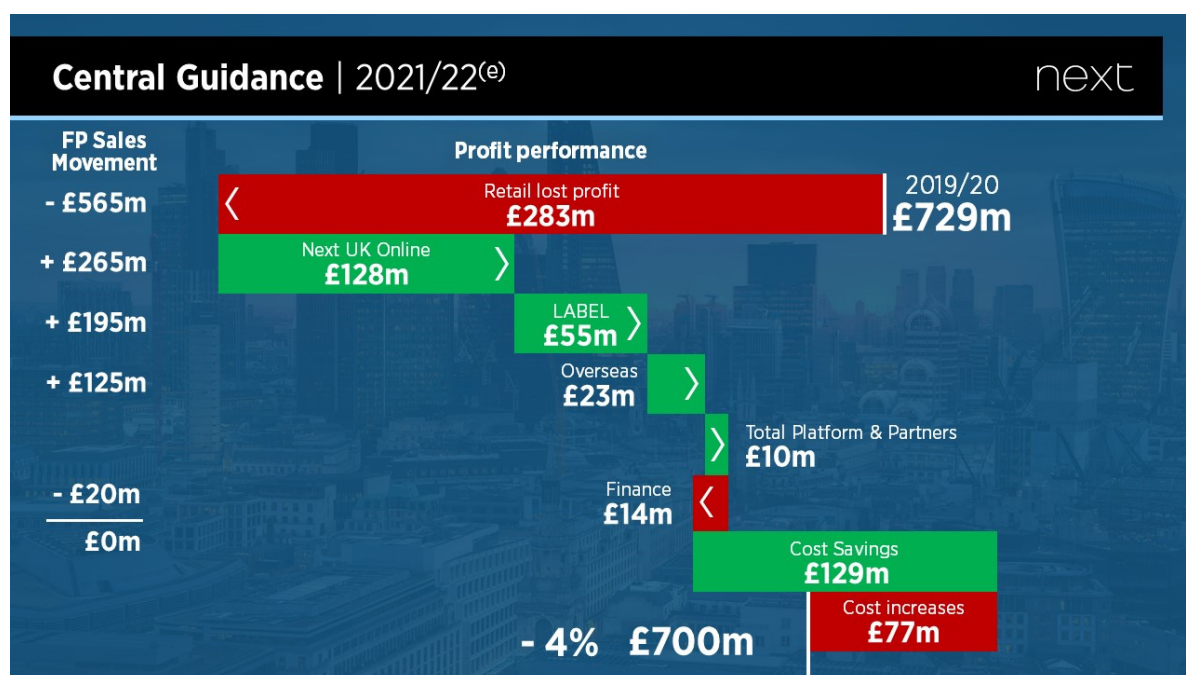
## FULL PRICE SALES AND PROFIT SCENARIOS

To give an idea of the sensitivity around our full price sales assumptions, we have set out below an upside and downside scenario for full price sales and profit before tax. All scenarios exclude the effect of any further lockdowns.

	Downside	Central scenario	Upside
Full price sales versus 2019/20	- 3%	0%	+3%
Profit before tax	£645m	£700m	£745m
Profit before tax versus 2019/20	- 11%	- 4%	+2%

## FULL PRICE SALES AND PROFIT MOVEMENTS (CENTRAL SCENARIO)

The graphic below sets out how the forecast change in **full price** sales by business is expected to impact on profit, relative to 2019/20, along with the cost savings and cost increases we are forecasting in the year ahead.



### *Cost Savings and Cost Increases*

A summary of the significant cost savings and cost increases is summarised below.

<b>Cost savings</b>	<b>£m</b>
Marketing, catalogues and photography	+£30m
Fully depreciated assets	+£25m
Business rates relief and occupancy cost savings	+£55m
Other Retail savings	+£10m
Other Group savings	+£9m
<b>Total cost savings</b>	<b>+£129m</b>

<b>Cost increases</b>	<b>£m</b>
Inflation (includes wage inflation)	- £30m
Warehouse and distribution	- £20m
Lower clearance rates	- £12m
Other cost increases	- £15m
<b>Total cost increases</b>	<b>- £77m</b>

## **FIRST QUARTER TRADING UPDATE**

Our first quarter Trading Statement will cover the thirteen weeks to 1 May 2021 and is scheduled for Thursday 6 May 2021.

**Lord Wolfson of Aspley Guise**

Chief Executive

1 April 2021

## APPENDIX 1 - STATUTORY SALES AND PROFIT

STATUTORY BASIS £m and EPS	Jan 2021	Jan 2020	Var £m	Var %
Sales	3,534.4	4,266.2	(731.8)	- 17%
Profit before tax	342.4	748.5	(406.1)	- 54%
Profit after tax	286.7	610.2	(323.5)	- 53%
Earnings Per Share (Basic)	223.3p	472.4p		
Adjusted net debt (including leases)	(1,796.1)	(2,363.1)	567.0	- 24%

### Overview

The financial information presented in pages 2 to 59 is used by the Chief Operating Decision Maker (CODM) and management in assessing business performance against its targets and strategy. It is also the financial information used to inform business decisions and investment appraisals. Having been prepared on a basis that is consistent with prior years and current profit guidance, it is management's view that this provides both a useful and necessary basis for understanding the Group's results. Because these performance measures are not prepared on a full IFRS statutory accounting basis they are commonly referred to as "Alternative Performance Measures" (APMs).

### Differences between APMs and Statutory results

The APMs differ to the statutory results in two key ways:

- Firstly, following the introduction of the new lease accounting standard IFRS 16, we decided to maintain the reporting of our profit on a pre-IFRS 16 basis. This was because the pre-IFRS 16 profit was consistent with the financial information used to inform business decisions and investment appraisals.
- Secondly, in common with many retailers, we used "Total Sales" as a measure to assess the performance of the business and not statutory revenue. Having been prepared on a basis that was consistent with prior years, and our Trading Statements, it was our view that this provided both a useful and necessary basis for understanding the Group's results. We have taken the same approach this year.

### Total Sales to Statutory Revenue

During the year, on a statutory basis, sales were down -17%. Sales presented in pages 2 to 59 are based on "Total Sales". "Total Sales" represent VAT exclusive sales, including the full value of commission based sales and interest income. For statutory reporting purposes two adjustments are made to derive statutory revenue:

- Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. This adjustment reduces the value of sales recognised for statutory reporting purposes by £159.4m for the period to January 2021 (2020: £137.7m)
- Customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances are included in statutory revenue (these amounts being reclassified from cost of sales). This adjustment increases the value of sales recognised for statutory reporting purposes by £67.9m for the period to January 2021 (2020: £42.1m)

As a result, Total Sales for the period to January 2021 of £3,625.9m (2020: £4,361.8m) are recognised for statutory purposes as revenue of £3,534.4m (2020: £4,266.2m). A corresponding amount has been recognised in cost of sales.

**This change has no impact on profit before taxation, profit after taxation, Earnings Per Share or cash flow.**



### IFRS 16 Leases and the Impact on the Income Statement

Last year, on adoption of IFRS 16 for the first time, we recognised a significant portion of the lease costs directly in reserves. Where the lease portfolio is stable, this will result in lower lease costs being recognised in the Income Statement going forward. This was evident in the January 2020 Income Statement, which showed a benefit to profit before tax of £20.0m when it was restated for IFRS 16.

However, for the year to January 2021 the impact of IFRS 16 includes both the underlying adjustment and the impact of non-recurring items (store impairments and gain on the sale and leaseback) as set out below:

1. **Underlying IFRS 16 transactions +£20m:** This represents the IFRS 16 adjustment on underlying/normal trade and can be viewed in four components: (1) IAS 17 rent costs net of capital contribution and other lease incentives of +£212m; (2) benefit from reassessment of lease term of +£6m less (3) the IFRS 16 depreciation -£138m; and (4) finance costs on the lease liability of -£60m.
2. **Lease provisions and impairment +£16m:** The property and onerous lease provision charge of £100m recognised under pre-IFRS 16 accounting has been reversed and an impairment charge for store assets and right-of-use assets recognised of £84m. The net charge in the Income Statement for these costs was therefore £16m lower than the pre-IFRS 16 charge.
3. **Sale and leaseback gain -£36m:** In the pre-IFRS 16 accounting the gain on the sale and leaseback is calculated as proceeds less the net book value of the assets being sold. However, under IFRS 16 the approach is different. IFRS 16 effectively limits any gain to the element of the asset which it no longer has access to use. The gain is effectively limited to the 'portion' of the asset not reacquired under the terms of the leaseback. This has resulted in the recognition of a smaller gain of £8.1m.

The net impact of IFRS 16 on both 2021 and 2020 is summarised in the table below. IFRS 16 changes profit before tax, profit after tax and Earnings Per Share.

£m	Jan 2021 excluding IFRS 16	IFRS 16 impact	Jan 2021 including IFRS 16
Profit before taxation	342.0	0.4	342.4
Taxation	(51.4)	(4.3)	(55.7)
Profit after taxation	290.6	(3.9)	286.7
Earnings Per Share (Basic)	226.3p		223.3p

£m	Jan 2020 excluding IFRS 16	IFRS 16 impact	Jan 2020 including IFRS 16
Profit before taxation	728.5	20.0	748.5
Taxation	(134.6)	(3.7)	(138.3)
Profit after taxation	593.9	16.3	610.2
Earnings Per Share (Basic)	459.8p		472.4p

It is important to stress that while the timing and nature of costs under IFRS 16 differ to those reported under IAS 17, over the course of the lease term the overall costs remain the same. This also applies to the gain on the sale and leaseback which, over the life of the lease, will result in the same net impact to the Income Statement.

### **Taxation**

The tax charge in the period to January 2021 under IFRS 16 is £4.3m higher than the charge on a pre-IFRS 16 basis. This is despite the headline profit before tax being just £0.4m higher. The table below walks forward between the two tax charges.

<b>Corporation Tax Effective Rate walk forward</b>	<b>Pre-IFRS 16</b>	<b>IFRS 16</b>
Profit before tax £m	342.0	342.4
Tax charge £m	- 51.4	-55.7
<b>Effective tax rate</b>	<b>15.0%</b>	<b>16.3%</b>
Benefit from property profit and other non-taxable income	2.2%	0.9%
Historical provision release and true ups with HMRC	1.8%	1.8%
<b>UK headline tax rate</b>	<b>19.0%</b>	<b>19.0%</b>

The difference in the tax rates is largely driven by the different amount of income recognised under IFRS 16, which reduces the profit on the sale and leaseback from £44m to £8m. This in turn reduces the tax rate benefit for the non-taxable element of the sale.

### **Non-Recurring Items**

In the Chief Executive's Review the impact of non-recurring items is presented based on a pre-IFRS 16 basis. The IFRS 16 equivalent is set out in the below table.

<b>£m</b>	<b>Profit impact (IFRS 16)</b>
Business rates reduction	+82
Profit from 53rd week	+12
Property profit from the sale and leaseback of properties	+8
Store related impairment	- 84
Stock and fabric provisions	- 34
Bad debt provisions	- 20
<b>Total profit impact</b>	<b>- 36</b>

The difference between these items and those on a pre-IFRS 16 basis relate to the gain on the sale and leaseback and the store related impairment (as explained in the Income Statement bridge).

### Adjusted Net Assets and Retained Earnings

£m	Jan 2021 excluding IFRS 16	IFRS 16 adjustment	Jan 2021 including IFRS 16
Non-current assets	713.7	755.7	1,469.4
Current assets	2,331.4	(42.8)	2,288.6
<b>Total assets</b>	<b>3,045.1</b>	<b>712.9</b>	<b>3,758.0</b>
Current liabilities	(1,077.6)	(119.2)	(1,196.8)
Non-current liabilities	(1,131.4)	(768.9)	(1,900.3)
<b>Total liabilities</b>	<b>(2,209.0)</b>	<b>(888.1)</b>	<b>(3,097.1)</b>
<b>NET ASSETS</b>	<b>836.1</b>	<b>(175.2)</b>	<b>660.9</b>
<b>TOTAL EQUITY</b>	<b>836.1</b>	<b>(175.2)</b>	<b>660.9</b>

The IFRS 16 adjustments to the balance sheet have four key components:

- 1) The recognition of a right-of-use asset representing the Group's right to use and realise value through the use of assets held under lease terms. These are £720.1m and represent the key movement in the Non-current assets adjustment of £755.7m.
- 2) Removal of the balance sheet accounts relating to pre-IFRS 16 lease accounting. This includes, for example, the removal of lease incentives, rental prepayments and accruals. These adjustments resulted in the adjustment of £42.8m in current assets.
- 3) The recognition within current liabilities of the current element of the lease liability of £170.1m. This is offset by the removal of rent-free provisions and other rent accruals resulting in a net adjustment of £119.2m.
- 4) The recognition of the non-current element of the lease liability of £1,015.8m. This is offset by the removal of long term capital contributions which are subsumed within the IFRS 16 right-of-use asset under IFRS 16.

### Adjusted Net Debt

Net debt at January 2021 excluding leases, was £610.2m (2020: £1,112.1m). From a statutory reporting perspective, IFRS 16 results in the recognition of lease debt on the Balance Sheet of £1,185.9m (2020: £1,251.0m). The year-on-year reduction in lease debt reflects the payments made in the period, the reassessment of certain lease terms and the trend towards shorter lease terms on retail stores, offset by the sale and leaseback transactions entered into during the period.

£m	Jan 2021	Jan 2020	Reduction in net debt
<b>Cash and cash equivalents</b>	<b>514.8</b>	<b>52.9</b>	
Unsecured bank loans	-	(40.0)	
Corporate bonds	(1,163.0)	(1,163.7)	
Fair value hedges of bonds	38.0	38.7	
<b>Net debt excluding leases</b>	<b>(610.2)</b>	<b>(1,112.1)</b>	<b>501.9</b>
Lease debt under IFRS 16	(1,185.9)	(1,251.0)	
<b>Net debt including leases</b>	<b>(1,796.1)</b>	<b>(2,363.1)</b>	<b>567.0</b>

### *Cash Flow*

While IFRS 16 has, from a statutory reporting perspective, had a significant impact on the Balance Sheet and Income Statement it is important to emphasise that it has had no impact on the cash generated by the business.

As disclosed in the Group accounting policies in the financial statements, the impact of IFRS 16 on the cash flow is limited to changes in the presentation of where cash flows are reported.

# UNAUDITED CONSOLIDATED INCOME STATEMENT

	53 weeks to 30 January 2021 £m	52 weeks to 25 January 2020 £m
<b>Continuing operations</b>		
<b>Revenue</b>	<b>3,284.1</b>	3,997.5
Credit account interest	<b>250.3</b>	268.7
Total revenue (including credit account interest)	<b>3,534.4</b>	4,266.2
Cost of sales	<b>(2,231.7)</b>	(2,584.2)
Impairment losses on customer and other receivables	<b>(54.8)</b>	(41.5)
<b>Gross profit</b>	<b>1,247.9</b>	1,640.5
Distribution costs	<b>(555.8)</b>	(517.0)
Administrative expenses	<b>(246.8)</b>	(267.7)
Other losses	<b>(1.3)</b>	(1.5)
<b>Trading profit</b>	<b>444.0</b>	854.3
Share of results of associates and joint ventures	<b>0.5</b>	(0.4)
<b>Operating profit</b>	<b>444.5</b>	853.9
Finance income	<b>0.6</b>	0.2
Finance costs	<b>(102.7)</b>	(105.6)
<b>Profit before taxation</b>	<b>342.4</b>	748.5
Taxation	<b>(55.7)</b>	(138.3)
<b>Profit for the year attributable to equity holders of the Parent Company</b>	<b>286.7</b>	610.2

<b>Earnings Per Share (Note 4)</b>	53 weeks to 30 January 2021	52 weeks to 25 January 2020
Basic	<b>223.3p</b>	472.4p
Diluted	<b>221.9p</b>	468.8p

The Notes 1 to 14 are an integral part of these consolidated financial statements.

# UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	53 weeks to 30 January 2021 £m	52 weeks to 25 January 2020 £m
<b>Profit for the period</b>	<b>286.7</b>	610.2
<i>Other comprehensive income and expenses:</i>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial (losses)/gains on defined benefit pension scheme	<b>(57.1)</b>	2.8
Tax relating to items which will not be reclassified	<b>10.8</b>	(0.5)
<i>Subtotal items that will not be reclassified</i>	<b>(46.3)</b>	2.3
<b>Items that may be reclassified to profit or loss</b>		
Exchange differences on translation of foreign operations	<b>(2.5)</b>	2.0
Foreign currency cash flow hedges:		
- fair value movements	<b>(14.2)</b>	10.5
Cost of hedging:		
- fair value movements	<b>(0.5)</b>	0.1
Tax relating to items which may be reclassified	<b>2.8</b>	(2.8)
<i>Subtotal items that may be reclassified</i>	<b>(14.4)</b>	9.8
Other comprehensive (expense)/income for the period	<b>(60.7)</b>	12.1
<b>Total comprehensive income for the period</b>	<b>226.0</b>	622.3

# UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	30 January 2021 £m	25 January 2020 £m
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		474.8	578.5
Intangible assets		60.5	44.2
Right-of-use assets	13	720.1	852.7
Associates, joint ventures and other investments		5.0	5.0
Defined benefit pension asset	6	99.2	133.4
Other financial assets	7	39.4	48.4
Deferred tax assets		70.4	55.7
		<b>1,469.4</b>	<b>1,717.9</b>
<b>Current assets</b>			
Inventories		536.9	527.6
Customer and other receivables	8	1,108.1	1,315.3
Right of return asset		24.3	24.2
Other financial assets	7	11.1	1.7
Cash and short term deposits		608.2	86.6
		<b>2,288.6</b>	<b>1,955.4</b>
<b>Total assets</b>		<b>3,758.0</b>	<b>3,673.3</b>
<b>Current liabilities</b>			
Bank loans and overdrafts		(93.4)	(73.7)
Corporate bonds	10	(326.0)	-
Trade payables and other liabilities	9	(555.3)	(592.0)
Lease liabilities	13	(170.1)	(172.3)
Other financial liabilities	7	(37.2)	(32.6)
Current tax liabilities		(14.8)	(79.2)
		<b>(1,196.8)</b>	<b>(949.8)</b>
<b>Non-current liabilities</b>			
Corporate bonds	10	(837.0)	(1,163.7)
Provisions		(18.6)	(17.3)
Other financial liabilities	7	-	(7.8)
Lease liabilities	13	(1,015.8)	(1,078.7)
Other liabilities	9	(28.9)	(14.5)
		<b>(1,900.3)</b>	<b>(2,282.0)</b>
<b>Total liabilities</b>		<b>(3,097.1)</b>	<b>(3,231.8)</b>
<b>NET ASSETS</b>		<b>660.9</b>	<b>441.5</b>
<b>TOTAL EQUITY</b>		<b>660.9</b>	<b>441.5</b>

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Foreign currency translation £m	Other reserves £m	Retained earnings £m	Total equity £m
<b>At 26 January 2019</b>	<b>13.9</b>	<b>0.9</b>	<b>16.0</b>	<b>(271.6)</b>	<b>0.4</b>	<b>0.4</b>	<b>(2.0)</b>	<b>(1,443.8)</b>	<b>2,052.0</b>	<b>366.2</b>
Profit for the period	-	-	-	-	-	-	-	-	610.2	<b>610.2</b>
Other comprehensive income for the period	-	-	-	-	7.7	0.1	2.0	-	2.3	<b>12.1</b>
Total comprehensive income for the period	-	-	-	-	7.7	0.1	2.0	-	612.5	<b>622.3</b>
Share buybacks and commitments	(0.6)	-	0.6	-	-	-	-	-	(300.2)	<b>(300.2)</b>
ESOT share purchases	-	-	-	(94.2)	-	-	-	-	-	<b>(94.2)</b>
Shares issued by ESOT	-	-	-	80.9	-	-	-	-	(15.4)	<b>65.5</b>
Share option charge	-	-	-	-	-	-	-	-	14.7	<b>14.7</b>
Reclassified to cost of inventory	-	-	-	-	(40.5)	-	-	-	-	<b>(40.5)</b>
Tax recognised directly in equity	-	-	-	-	7.7	-	-	-	13.6	<b>21.3</b>
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	(213.6)	<b>(213.6)</b>
<b>At 25 January 2020</b>	<b>13.3</b>	<b>0.9</b>	<b>16.6</b>	<b>(284.9)</b>	<b>(24.7)</b>	<b>0.5</b>	<b>-</b>	<b>(1,443.8)</b>	<b>2,163.6</b>	<b>441.5</b>
Profit for the period	-	-	-	-	-	-	-	-	286.7	<b>286.7</b>
Other comprehensive expense for the period	-	-	-	-	(11.5)	(0.4)	(2.5)	-	(46.3)	<b>(60.7)</b>
Total comprehensive income/(expense) for the period	-	-	-	-	(11.5)	(0.4)	(2.5)	-	240.4	<b>226.0</b>
Share buybacks and commitments	-	-	-	-	-	-	-	-	(19.3)	<b>(19.3)</b>
ESOT share purchases	-	-	-	(190.3)	-	-	-	-	-	<b>(190.3)</b>
Shares sold/issued by ESOT	-	-	-	204.0	-	-	-	-	(41.9)	<b>162.1</b>
Share option charge	-	-	-	-	-	-	-	-	16.7	<b>16.7</b>
Reclassified to cost of inventory	-	-	-	-	19.5	-	-	-	-	<b>19.5</b>
Tax recognised directly in equity	-	-	-	-	(3.0)	-	-	-	7.7	<b>4.7</b>
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	-	<b>-</b>
<b>At 30 January 2021</b>	<b>13.3</b>	<b>0.9</b>	<b>16.6</b>	<b>(271.2)</b>	<b>(19.7)</b>	<b>0.1</b>	<b>(2.5)</b>	<b>(1,443.8)</b>	<b>2,367.2</b>	<b>660.9</b>



# UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	53 weeks to 30 January 2021 £m	52 weeks to 25 January 2020 £m
<b>Cash flows from operating activities</b>		
Operating profit	444.5	853.9
Depreciation, impairment and (profit)/loss on disposal of property, plant and equipment	136.8	124.9
Depreciation and impairment on right-of-use assets	196.6	138.1
Amortisation of intangible assets	0.4	-
Share option charge	16.7	14.7
Share of (profit)/loss of joint ventures and associates	(0.5)	0.1
Profit on disposal of associate	(1.0)	-
Exchange movement	1.1	1.7
Increase in inventories and right of return asset	(9.6)	(25.6)
Decrease/(increase) in customer and other receivables	205.4	(34.0)
Decrease in trade and other payables	(29.5)	(3.3)
Net pension contributions less income statement charge	(22.9)	(5.3)
Cash generated from operations	938.0	1,065.2
Corporation taxes paid	(113.2)	(138.0)
<b>Net cash from operating activities</b>	<b>824.8</b>	<b>927.2</b>
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(146.3)	(138.8)
Movement in capital accruals	1.7	2.4
Payments to acquire property, plant and equipment	(144.6)	(136.4)
Proceeds from sale of property, plant and equipment	0.5	0.3
Purchase of intangible assets	(16.7)	-
Purchase of subsidiary	-	(3.0)
Disposal of minority interest	3.9	-
Investment in joint venture	(2.4)	-
<b>Net cash from investing activities</b>	<b>(159.3)</b>	<b>(139.1)</b>
<b>Cash flows from financing activities</b>		
Repurchase of own shares	(19.3)	(300.2)
Purchase of shares by ESOT	(189.0)	(94.2)
Disposal of shares by ESOT	162.7	66.9
Repayment of unsecured bank loans	(40.0)	(215.0)
Issue of corporate bonds	-	250.2
Lease repayments	(171.0)	(162.6)
Interest paid (including lease interest)	(101.6)	(100.9)
Interest received	0.5	0.2
Proceeds from sale and leaseback transactions	154.4	-
Dividends paid (Note 5)	-	(213.6)
<b>Net cash from financing activities</b>	<b>(203.3)</b>	<b>(769.2)</b>
<b>Net increase in cash and cash equivalents</b>	<b>462.2</b>	<b>18.9</b>
Opening cash and cash equivalents	52.9	34.0
Effect of exchange rate fluctuations on cash held	(0.3)	-
<b>Closing cash and cash equivalents (Note 12)</b>	<b>514.8</b>	<b>52.9</b>

# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation

The results for the financial period are for the 53 weeks to 30 January 2021 (last year 52 weeks to 25 January 2020).

The condensed consolidated financial statements for the period ended 30 January 2021 have been prepared in accordance with the recognition and measurement criteria of international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Company within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the year to 25 January 2020 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

### **New accounting standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the condensed consolidated financial statements are the same as those set out in the Group's annual financial statements for the 52 weeks ended 25 January 2020 except for the adoption of new policies as set out below.

None of these new policies resulted in a restatement of the prior year comparatives. This is because they relate to transactions that were new in the year and are the application of existing accounting standards.

### **Sale and leaseback**

A sale and leaseback transaction occurs when the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the counterparty. A sale is recognised when control of the underlying asset passes to the counterparty. The asset sold is derecognised and a lease liability and right-of-use asset recognised in relation to the lease. Any gain or loss arising on the transaction is recognised in the Income Statement and relates to the rights transferred to the counterparty.

### **Government Grants**

Grants are recognised only when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Grants that are receivable as compensation for expenses already incurred are recognised in profit or loss in the period in which they become receivable.

### **Software**

Capitalised software costs include both external direct costs of goods and services, and internal payroll-related costs for employees who are directly associated with the software project.

Development costs are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it is available for use
- Management intend to complete the software for use in the business
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable economic benefits in the future

- Adequate technical, financial and other resources are available to complete the project

## 1. Basis of preparation (continued)

### Software (continued)

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between 3 and 5 years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

### Impact on the financial statements:

#### Sale and leaseback

During the year, the Group entered two sale and leaseback transactions, one in respect of a warehouse and one on its head office site. As a result of these transactions the Group received proceeds of £154.4m and recognised a gain of £8.1m within administrative expenses. The term of the lease on the warehouse site was determined to be 26 years and on the head office 35 years (with a break option at year 25).

#### Government Grants

During the year, the Group received £95.1m under the UK Government's Job Retention Scheme. These amounts have been recognised in Cost of sales (£63.3m), distributions costs (£26.7m) and administrative costs (£5.1m) based on where the associated staff payroll costs are recognised. All receipts from the Job Retention Scheme have been paid in full to staff on furlough. This has been recognised as a grant in accordance with the accounting policy set out above.

#### Software

During the year, the Group capitalised software development costs of £16.5m within intangible assets. This expenditure relates to software projects that fulfil the criteria as set out in the accounting policy and in compliance with IAS 38. Amortisation of £0.3m was recognised on completed projects.

Several other amendments and interpretations are effective for the first time in 2021, but do not have an impact on the financial statements of the Group.

### Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities including the Group's principal risks and uncertainties. The Board also considered the Group's current cash position, the repayment profile of its existing debt structure (including the maturity of the £325m Bond in October 2021) and the resilience of its 12 month cash flow forecasts to a series of severe but plausible downside scenarios such as further enforced store closures. Having considered these factors the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the 53 weeks ended 30 January 2021.

## 2. Segmental analysis

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Board. The performance of operating segments is assessed on profits before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 "Share-based payment", IFRS 16 "Leases" (lease costs are instead charged the Income Statement on straight line basis) and unrealised gains or losses on derivatives which do not qualify for hedge accounting.

The Property Management segment holds properties and property leases which are sublet to other segments and external parties. The NEXT International Retail segment comprises franchise and wholly owned stores overseas. International online sales are included in the NEXT Online segment.

Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. "Total sales" represents the full customer sales value of commission based sales and interest income, excluding VAT. Under IFRS 15, total sales have also been adjusted for customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances. The CODM uses the total sales as a key metric in assessing segment performance; accordingly, this is presented below and then reconciled to the statutory revenue.

### Segment sales and revenue

	53 weeks to 30 January 2021					
	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Online	2,368.4	(157.4)	68.5	2,279.5	-	2,279.5
NEXT Retail	954.5	(2.0)	(0.6)	951.9	0.3	952.2
NEXT Finance	250.3	-	-	250.3	-	250.3
NEXT International Retail	33.2	-	-	33.2	-	33.2
NEXT Sourcing	6.8	-	-	6.8	394.6	401.4
	3,613.2	(159.4)	67.9	3,521.7	394.9	3,916.6
Lipsy	5.2	-	-	5.2	74.1	79.3
NENA	0.1	-	-	0.1	0.6	0.7
Property Management	7.4	-	-	7.4	193.2	200.6
Total segment sales/revenue	3,625.9	(159.4)	67.9	3,534.4	662.8	4,197.2
Eliminations	-	-	-	-	(662.8)	(662.8)
<b>Total</b>	<b>3,625.9</b>	<b>(159.4)</b>	<b>67.9</b>	<b>3,534.4</b>	<b>-</b>	<b>3,534.4</b>

NENA (NEXT Europe and North Africa) is a small sourcing business acquired on 31 January 2020.

## 2. Segmental analysis (continued)

### Segment sales and revenue

	52 weeks to 25 January 2020					
	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Online	2,146.6	(134.3)	42.4	2,054.7	1.6	2,056.3
NEXT Retail	1,851.9	(3.4)	(0.3)	1,848.2	3.3	1,851.5
NEXT Finance	268.7	-	-	268.7	-	268.7
NEXT International Retail	56.9	-	-	56.9	-	56.9
NEXT Sourcing	9.5	-	-	9.5	533.4	542.9
	4,333.6	(137.7)	42.1	4,238.0	538.3	4,776.3
Lipsy	13.1	-	-	13.1	81.8	94.9
Property Management	15.1	-	-	15.1	196.2	211.3
Total segment sales/revenue	4,361.8	(137.7)	42.1	4,266.2	816.3	5,082.5
Eliminations	-	-	-	-	(816.3)	(816.3)
Total	4,361.8	(137.7)	42.1	4,266.2	-	4,266.2

## 2. Segmental analysis (continued)

The view of segment profits used by the CODM does not include the impact of IFRS 16 because the IFRS 16 profit before tax is not used in internal reporting.

### Segment profit/(loss)

	53 weeks to 30 Jan 2021 £m	52 weeks to 25 Jan 2020 £m
NEXT Online	472.1	399.6
NEXT Retail	(205.9)	163.9
NEXT Finance	112.4	146.7
NEXT International Retail	3.4	6.2
NEXT Sourcing	17.8	32.0
	399.8	748.4
Lipsy	5.2	13.0
Property Management	(39.9)	(2.2)
<b>Total segment profit</b>	<b>365.1</b>	<b>759.2</b>
Central costs and other	(11.8)	(6.8)
Recharge of interest	48.4	36.3
Share option charge	(16.7)	(14.7)
Unrealised foreign exchange losses	(1.3)	(1.5)
<b>Trading profit</b>	<b>383.7</b>	<b>772.5</b>
Share of results of associates and joint venture	0.5	(0.4)
Finance income	0.6	0.2
Finance costs	(42.8)	(43.8)
<b>Profit before tax excluding IFRS 16</b>	<b>342.0</b>	<b>728.5</b>
IFRS 16	0.4	20.0
<b>Profit before tax including IFRS 16</b>	<b>342.4</b>	<b>748.5</b>

### 3. Revenue

The Group's disaggregated revenue recognised under contracts with customers relates to the following categories and operating segments:

53 weeks to 30 January 2021					
	Sale of goods	Credit account interest	Royalties	Rental income	Total
	£m	£m	£m	£m	£m
NEXT Online	2,279.5	-	-	-	2,279.5
NEXT Retail	951.9	-	-	-	951.9
NEXT Finance	-	250.3	-	-	250.3
NEXT International Retail	29.2	-	4.0	-	33.2
NEXT Sourcing	6.8	-	-	-	6.8
Lipsy	3.6	-	1.6	-	5.2
NENA	0.1	-	-	-	0.1
Property Management	-	-	-	7.4	7.4
<b>Total</b>	<b>3,271.1</b>	<b>250.3</b>	<b>5.6</b>	<b>7.4</b>	<b>3,534.4</b>

52 weeks to 25 January 2020					
	Sale of goods	Credit account interest	Royalties	Rental income	Total
	£m	£m	£m	£m	£m
NEXT Online	2,054.7	-	-	-	2,054.7
Next Retail	1,848.2	-	-	-	1,848.2
NEXT Finance	-	268.7	-	-	268.7
NEXT International Retail	51.6	-	5.3	-	56.9
NEXT Sourcing	9.5	-	-	-	9.5
Lipsy	10.8	-	2.3	-	13.1
Property Management	-	-	-	15.1	15.1
<b>Total</b>	<b>3,974.8</b>	<b>268.7</b>	<b>7.6</b>	<b>15.1</b>	<b>4,266.2</b>

## 4. Earnings Per Share

	<b>53 weeks to 30 January 2021 Including IFRS 16</b>	52 weeks to 25 January 2020 Including IFRS 16	<b>53 weeks to 30 January 2021 Excluding IFRS 16</b>	52 weeks to 25 January 2020 Excluding IFRS 16
Basic Earnings Per Share	<b>223.3p</b>	472.4p	<b>226.3p</b>	459.8p
Diluted Earnings Per Share	<b>221.9p</b>	468.8p	<b>224.9p</b>	456.3p

Basic Earnings Per Share is based on the profit for the year attributable to the equity holders of the Parent Company divided by the net of the weighted average number of shares ranking for dividend less the weighted average number of shares held by the ESOT during the period.

Diluted Earnings Per Share is calculated by adjusting the weighted average number of shares used for the calculation of basic Earnings Per Share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. There were 1,486,779 non-dilutive share options in the current year (2020: 2,424,915).

## 5. Dividends

No interim or final dividend is proposed for the year to January 2021. The Trustee of the ESOT waived dividends paid in the prior year on shares held by the ESOT.

Year to 25 January 2020	Paid	Pence per share	Cash Flow Statement £m	Statement of Changes in Equity £m
Final ordinary dividend for year to Jan 2019	1 Aug 2019	110p	140.3	140.3
Interim ordinary dividend for year to Jan 2020	2 Jan 2020	57.5p	73.3	73.3
			213.6	213.6



## 6. Defined benefit pension

The principal pension scheme is the 2013 NEXT Group Pension Plan, which includes defined benefit and defined contribution sections.

The movement in the defined benefit pension surplus in the period is as follows:

	53 weeks to 30 January 2021 £m	52 weeks to 25 January 2020 £m
Surplus in schemes at the beginning of the period	133.4	125.0
Current service cost	(8.6)	(6.0)
Administration costs	(2.2)	(2.4)
Net interest	2.1	3.7
Employer contributions	25.1	7.3
SPA Plan benefits paid	6.5	3.0
Actuarial gains and returns on plan assets	(57.1)	2.8
<b>Surplus in schemes at the end of the period</b>	<b>99.2</b>	<b>133.4</b>

The main financial assumptions and actuarial valuations have been updated by independent qualified actuaries under IAS 19 “*Employee benefits*”. The following financial assumptions have been used:

	53 weeks to 30 January 2021	52 weeks to 25 January 2020
Discount rate	1.65%	1.75%
Inflation - RPI	2.75%	2.80%
Inflation - CPI	1.95%	1.90%
Salary increases	-	-
Pension increases in payment		
- RPI with a maximum of 5%	2.70%	2.75%
- RPI with a maximum of 2.5% and discretionary increases	1.90%	1.90%

## 7. Other financial assets and liabilities

Other financial assets and other financial liabilities include the fair value of derivative contracts which the Group uses to manage its foreign currency and interest rate risks. All derivatives are categorised as Level 2 under the requirements of IFRS 13, as they are valued using techniques based significantly on observed market data.

## 8. Customer and other receivables

The following table shows the components of net receivables:

	2021 £m	2020 £m
Gross customer receivables	1,275.4	1,455.5
Less: refund liabilities	(51.8)	(49.9)
Net customer receivables	1,223.6	1,405.6
Less: allowance for expected credit losses	(195.5)	(171.5)
	1,028.1	1,234.1
Other trade receivables	14.0	26.4
Less: allowance for doubtful debts	(0.6)	(0.5)
	1,041.5	1,260.0

Presentation of the above, split by total receivables and allowances:

	2021 £m	2020 £m
Net customer receivables	1,223.6	1,405.6
Other trade receivables	14.0	26.4
	1,237.6	1,432.0
Less: allowance for expected credit losses	(196.1)	(172.0)
	1,041.5	1,260.0
Prepayments	31.5	38.8
Other debtors	23.3	13.3
Amounts due from associates and joint venture	11.8	3.2
	1,108.1	1,315.3

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% (2020: 23.9%) at the year-end date, except for £18.6m (2020: £6.0m) of next3step balance which bears interest at 29.9% (2020: 29.9%) at the year end date.

The fair value of customer receivables and other trade receivables is approximately £1,005m (2020: £1,200m). This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy.

The amount charged to the Income Statement in respect of Expected Credit loss was £54.8m (2020: £41.5m). This differs to the bad debt charge of £50.5m (2020: £43.3m) in the Chief Executive's Review on page 38 due to recoveries of previously written off assets taken directly to the Income Statement.

## 9. Trade payables and other liabilities

	2021		2020	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade payables	172.6	-	212.8	-
Refund liabilities	6.8	-	5.4	-
Other taxation and social security	59.1	-	73.4	-
Deferred revenue from the sale of gift cards	71.7	-	74.9	-
Share-based payment liability	0.2	0.2	0.2	0.2
Other creditors and accruals	244.9	28.7	225.3	14.3
	<b>555.3</b>	<b>28.9</b>	592.0	14.5

## 10. Corporate bonds

	Balance Sheet value		Nominal value	
	2021 £m	2020 £m	2021 £m	2020 £m
Corporate bond 5.375% repayable 2021	326.0	327.0	325.0	325.0
Corporate bond 3.000% repayable 2025	250.0	250.0	250.0	250.0
Corporate bond 4.375% repayable 2026	287.0	286.7	250.0	250.0
Corporate bond 3.625% repayable 2028	300.0	300.0	300.0	300.0
	<b>1,163.0</b>	1,163.7	<b>1,125.0</b>	1,125.0

For the year ended 30 January 2021 the 2021 Bond has been recognised within current liabilities as this matures within 12 months of the year end date.

## 11. Share capital

Movements in the Company's issued share capital during the year are shown in the table below:

	<b>2021</b> <b>Shares '000</b>	2020 Shares '000	<b>2021</b> <b>£m</b>	2020 £m
<b>Allocated, called up and fully paid</b>				
<i>Ordinary shares of 10p each</i>				
At the start of the year	<b>133,229</b>	138,606	<b>13.3</b>	13.9
Purchased for cancellation in the year	<b>(280)</b>	(5,377)	-	(0.6)
	<b>132,949</b>	133,229	<b>13.3</b>	13.3

	<b>2021</b> <b>Shares</b> <b>'000</b>	<b>2021</b> <b>Cost</b> <b>£m</b>	2020 Shares '000	2020 Cost £m
Shares purchased for cancellation in the year	<b>280</b>	<b>19.3</b>	5,377	300.2
Amount shown in Statement of Changes in Equity		<b>19.3</b>		300.2

Subsequent to the end of the financial year and before the start of the closed period the Company did not purchase any shares for cancellation.

## 12. Analysis of net debt

	January 2020 £m	Cash flow £m	Fair value changes £m	IFRS 16 £m	January 2021 £m
Cash and short term deposits	86.6	521.6	-	-	<b>608.2</b>
Overdrafts and short term borrowings	(33.7)	(59.7)	-	-	<b>(93.4)</b>
Cash and cash equivalents	<b>52.9</b>	<b>461.9</b>	-	-	<b>514.8</b>
Unsecured committed bank loans	(40.0)	40.0	-	-	-
Corporate bonds	(1,163.7)	-	0.7	-	<b>(1,163.0)</b>
Fair value hedges of corporate bonds	38.7	-	(0.7)	-	<b>38.0</b>
<b>Net debt excluding leases</b>	<b>(1,112.1)</b>	<b>501.9</b>	-	-	<b>(610.2)</b>
Current lease liability	(172.3)			2.2	<b>(170.1)</b>
Non-current lease liability	(1,078.7)			62.9	<b>(1,015.8)</b>
	<b>(1,251.0)</b>			65.1	<b>(1,185.9)</b>
<b>Net debt including leases</b>	<b>(2,363.1)</b>	501.9	-	65.1	<b>(1,796.1)</b>

The IFRS 16 movements represent the net movement of lease additions, modifications, lease payment, finance costs and the change in the ageing profile as each year passes.

### 13. Leases

	2021 £m	2020 £m
<b>Right-of-use assets</b>		
Buildings	215.0	133.0
Stores	492.1	705.0
Equipment	3.3	4.9
Vehicles	9.7	9.8
<b>Total</b>	<b>720.1</b>	<b>852.7</b>

Due to the impact of COVID the structural shift of trade from the Group's Retail to Online business accelerated during the year. As a result, an impairment charge of £64.2m (2020: £1.2m) has been recognised on the Store right-of-use assets.

	2021 £m	2020 £m
<b>Lease Liability</b>		
Current	(170.1)	(172.3)
Non-current	(1,015.8)	(1,078.7)
<b>Total</b>	<b>(1,185.9)</b>	<b>(1,251.0)</b>

	2021 £m	2020 £m
Finance costs on leases	(59.9)	(61.8)
Gain on sale and leaseback	8.1	-

During the year, the Group entered into two sale and leaseback transactions, one in respect of a warehouse and one on its head office site. As a result of these transactions the Group received proceeds of £154.4m and recognised a gain of £8.1m within administrative expenses. The term of the lease on the warehouse site was determined to be 26 years and on the head office 35 years (with a break option at year 25).

### 14. AGM

The Annual General Meeting will be held on Thursday 20 May 2021 at 9:30 am and details will be included in the Notice of Meeting which is to be sent to shareholders on 20 April 2021. The Annual Report and Accounts will also be sent to shareholders on 20 April 2021 and copies will be available from the Company's registered office: Desford Road, Enderby, Leicester, LE19 4AT and on our corporate website at [nextplc.co.uk](http://nextplc.co.uk).

## GLOSSARY

### Alternative Performance Measures (APMs) and other non statutory finance measures

APM Definition	Closest equivalent statutory measure	Purpose and reconciliation to closest statutory measure where applicable
<b>Active customers</b> <p>Those customers who have purchased products using their Online account or received a standard account statement in the last 20 weeks. Customers can be either Online credit or cash customers.</p>	None	<p>Active customers have a strong correlation with sales and interest income and helps drive understanding on movements in income.</p> <p>Reconciliation to closest equivalent statutory measure not applicable.</p>
<b>Average customer receivables</b> <p>The average amount of money owed by all nextpay and next3step customers less any provision for bad debt. This represents the total balances we expect to recover averaged across the relevant period.</p>	None	<p>Average customer receivables has a strong correlation with interest income on the Finance P&amp;L and helps drive understanding on movements in income. It also helps to evaluate the overall health of the balance sheet for the Finance business.</p> <p>The average customer receivables balance in FY21 was £1,050m (FY20: £1,185m). The statutory accounts do not disclose the monthly customer receivables balance needed to calculate the average balance. However, the closest comparative is the year-end balance disclosed in Note 8 to the financial statements.</p>
<b>Bad debt charge</b> <p>The charge taken in relation to the performance of our customer debtor book. This consists predominantly of providing for future defaults.</p>	Impairment losses	<p>Measurement of the quality of the Online customer receivables. A lower bad debt charge indicates that the quality and recoverability of the balance is higher.</p> <p>The bad debt charge is the total of the in-year impairment charge, less amounts recovered. In FY21 the total bad debt charge disclosed in the CEO report was £51m. In Note 8 the total Expect Credit Loss charge was £54.8m with the difference relating to recoveries on previously written off assets.</p>
<b>Bought-in gross margin</b> <p>Difference between the cost of stock and initial selling price, expressed as a percentage of achieved total VAT exclusive selling prices.</p>	None	<p>Bought-in gross margin is a measure of the profit made on the sale of stock at full price. This is a key internal management metric for assessing category performance.</p> <p>Reconciliation to closest equivalent statutory measure not applicable as full price sales not a statutory metric.</p>
<b>Branch profitability</b> <p>Retail store total sales less cost of sales, payroll, controllable costs, occupancy costs and depreciation, and before allocation of central overheads. Expressed as a percentage of VAT inclusive sales. Net branch profit is a measure of the profitability on a store by store level.</p>	None	<p>Measurement of the Retail business profit by physical branch. Provides an indication of the performance of the store portfolio. This is based on costs which are directly attributable to the store. Therefore, it does not include costs such as central overheads which will be included in the statutory accounts.</p> <p>Reconciliation to closest equivalent statutory measure is therefore not applicable.</p>

APM Definition	Closest equivalent statutory measure	Purpose and reconciliation to closest statutory measure where applicable
<p><b>Cost of funding</b></p> <p>Interest is charged to the NEXT Finance business in respect of funding costs for the Online debtor balance.</p> <p>It is calculated by applying the average Group interest rate (i.e. the external borrowing rate of the NEXT Group divided by the average NEXT Group borrowing) to the average debtor balance.</p>	None	<p>Required to evaluate the underlying profitability of the Finance business.</p> <p>There is no statutory equivalent as this is a metric specific to how the Group manages its funding and cost allocations.</p> <p>In the year to January 2021 this has been calculated as:</p> $\text{Average Group interest} = \text{Average debt} / \text{Interest cost}$ $= £792\text{m} / £42.2\text{m}$ $= 5.3\%$ <p>Then apply 5.3% to 85% of the Average Online customer balance of £1,050m (as we assume that 85% of this is funded).</p> <p>This equates to a Cost of Funding charge of £48m.</p> <p>Prior year Cost of Funding of £36m.</p> <p>Note the increase in the year on year charge is due to the significant reduction in average debt while external finance costs are largely unchanged. The latter has not varied as much because the external finance costs are based on the Bonds which have not materially changed year on year.</p>
<p><b>Credit sales</b></p> <p>VAT exclusive sales from Online credit customers who have purchased using their online NEXT account, inclusive of any interest income charges and delivery charges, and after deducting any applicable promotional discounts.</p>	None	<p>Credit sales are a direct indicator of the performance and profitability of the Finance business.</p> <p>Reconciliation to closest equivalent statutory measure not applicable as the statutory accounts split by business segment but not by the mechanism of customer payment.</p>
<p><b>Divisional operating profit</b></p> <p>Divisional profit before interest and tax, excluding equity-settled share option charges recognised under IFRS 2 "Share-based payment" and unrealised foreign exchange gains and losses on derivatives which do not qualify for hedge accounting. Refer to the Segmental Analysis Note of the financial statements.</p>	Segment profit	<p>A direct indicator of the performance of each division making up the total Group operating profit. A commonly used metric that provides a useful method of performance comparison across the Group.</p> <p>The divisional operating profits are the same as the Segment profits presented in Note 2 of the Financial Statements. They do not include the impact of IFRS 16 because the segments are not managed using IFRS 16 metrics.</p>
<p><b>Earnings Per Share (EPS) excluding IFRS 16</b></p> <p>The level of growth in EPS provides a suitable measure of the financial health of the Group and its ability to deliver returns to shareholders.</p> <p>Refer to Note 4 of the financial statements.</p>	Earnings per share (including IFRS 16)	<p>A measure of the financial health of the Group and its ability to deliver returns to shareholders. A commonly used metric that can be used to compare performance to other businesses.</p> <p>To reconcile the EPS excluding IFRS 16 to the statutory EPS the impact of IFRS 16 on the profit after taxation must be included in the Earnings part of the EPS calculation.</p> <p>Appendix 1 includes a reconciliation of the pre and post IFRS 16 profit before tax and a walk forward of</p>



APM Definition	Closest equivalent statutory measure	Purpose and reconciliation to closest statutory measure where applicable
		the effective tax charge while Note 4 of the Financial Statements presents both EPS excluding IFRS 16 and EPS including IFRS 16.
<b>Full price sales</b> Total sales excluding items sold in our sale events, Total Platform sales and our Clearance operations and includes interest income relating to those sales.	Revenue – sale of goods	Full price sales are a direct indicator of the performance and profitability of the business.
<b>Interest income</b> The gross interest billed to nextpay and next3step customers, before any deduction for unpaid interest on bad debt.	Revenue – credit account interest	Interest income is a direct indicator of the performance and profitability of the Finance business. This is presented on the face of the Income Statement and note 2 of the Financial Statements.
<b>Like-for-like sales</b> Change in sales from Retail stores which have been open for at least one full year.	None	This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis and is a common term used in the retail industry. Reconciliation to closest equivalent statutory measure not applicable. Note in the current year like-for-like sales on Retail stores are not being used as a KPI due to the disruption caused by COVID.
<b>Net debt</b> Comprises cash and cash equivalents, bank loans, corporate bonds, fair value hedges of corporate bonds but excludes lease debt. Net debt is a measure of the Group's indebtedness.	Statutory net debt	This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies. As used in the Annual Report this excludes the debt on leases unless otherwise stated. Net debt and lease debt are presented in Note 12 of the Financial Statements.
<b>Net operating margin</b> Profit after deducting markdowns and all direct and indirect trading costs, expressed as a percentage of achieved total sales.	None	A measure of the profitability of the Group. A commonly used metric that can be used to compare performance to other businesses. Net margin measures whether profitability is changing at a higher or lower rate relative to revenue.
<b>Net profit (NEXT Finance)</b> The profit, including interest income and the bad debt charge, and after the allocation of central overheads and the cost of funding.	Profit before tax	A measure of direct profitability of the Finance business. The Net profit for the Finance Business is presented in Note 2 to the financial statements. It does not include the impact of IFRS 16 as the business does not report the impact of IFRS 16 at a segment level.
<b>Return on Capital Employed – ROCE (NEXT Finance)</b> The NEXT Finance net profit (after the interest charge relating to the cost of funding), divided by the average customer receivables balance.	None	A commonly used metric that can be used to compare performance to other financial businesses. It measures the profit (i.e. return) relative to the amount of capital employed. The higher the ROCE the greater the return for the capital employed in the business. The ROCE for NEXT Finance in the year to January

APM Definition	Closest equivalent statutory measure	Purpose and reconciliation to closest statutory measure where applicable
		<p>2021 was calculated by dividing the Operating profit for segment of £112m by the average debt balance of £1,050m. As a percentage this is 10.7% (2020: 12.4%).</p> <p>The Operating profit for the segment is disclosed in Note 2 to the financial statements.</p>
<p><b>Total sales</b></p> <p>VAT exclusive full price and markdown sales including the full value of commission based sales and interest income (as described and reconciled in Note 2 of the financial statements).</p>	<p>Revenue – sale of goods</p>	<p>Total sales are a direct indicator of the performance and profitability of the business.</p> <p>Total sales are reconciled to Statutory sales in Note 2 of the Financial Statements.</p>
<p><b>Underlying like-for-like sales</b></p> <p>Like-for-like sales, excluding stores impacted by new openings. This is a measure of the annual performance of stores taking into account the impact of new store openings on existing stores.</p>	<p>None</p>	<p>This metric enables the performance of the Retail stores to be measured on a consistent year-on-year basis, without distortion from new openings, and is a common term used in the retail industry.</p> <p>Reconciliation to closest equivalent statutory measure not applicable.</p> <p>Note in the current year like-for-like sales on Retail stores are not being used as a KPI due to the disruption caused by COVID.</p>
<p><b>Underlying profit and Earnings Per Share</b></p> <p>Underlying profit and Earnings Per Share measures exclude exceptional items and are shown on a consistent basis where relevant. Allows for more consistent comparison, excluding one-off items.</p>	<p>None</p>	<p>This metric enables the profitability of the Group and its ability to return funds to shareholders to be evaluated consistently year on year, and against other businesses.</p> <p>EPS is disclosed in Note 4 of the Financial Statements. The group has not incurred any exceptional items in either the year January 2021 or the year to January 2020.</p> <p>However, as used in the CEO report, underlying profit and EPS exclude the impact of IFRS 16, Leases.</p> <p>To reconcile the underlying EPS to the statutory EPS the impact of IFRS 16 on the profit after taxation must be included in the Earnings part of the EPS calculation.</p> <p>Note 4 of the Financial Statements presents both EPS excluding IFRS 16 and EPS including IFRS 16.</p>

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at [nextplc.co.uk](http://nextplc.co.uk).

To view our range of exciting, beautifully designed, excellent quality clothing and homeware go to [next.co.uk](http://next.co.uk).

Certain statements which appear in a number of places throughout this announcement are "forward looking statements" which are all matters that are not historical facts, including anticipated financial and operational performance, business prospects and similar matters. These forward looking statements are identifiable by words such as "aim", "anticipate", "believe", "budget", "estimate", "expect", "forecast", "intend", "plan", "project" and similar expressions. These forward looking statements reflect NEXT's current expectations concerning future events and actual results may differ materially from current expectations or historical results. Any such forward looking statements are subject to risks and uncertainties, including but not limited to those matters highlighted in the Chief Executive's review; failure by NEXT to predict accurately customer fashion preferences; decline in the demand for merchandise offered by NEXT; competitive influences; changes in level of store traffic or consumer spending habits; effectiveness of NEXT's brand awareness and marketing programmes; general economic conditions or a downturn in the retail industry; the inability of NEXT to successfully implement relocation or expansion of existing stores; insufficient consumer interest in NEXT Online; acts of war or terrorism worldwide; work stoppages, slowdowns or strikes; and changes in financial and equity markets. These forward looking statements do not amount to any representation that they will be achieved as they involve risks and uncertainties and relate to events and depend upon circumstances which may or may not occur in the future and there can be no guarantee of future performance. Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. NEXT does not undertake any obligation to update publicly or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.