

Date: Embargoed until 07.00hrs, Wednesday 28 October 2020

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next PLC

Trading Statement – 28 October 2020

HEADLINES

- Full price sales in the third quarter were better than we anticipated and were up +2.8% against last year. Total sales (including markdown sales) were up +1.4%.
- Full year profit before tax, based on our new central sales scenario, is now forecast at **£365m¹**, £65m higher than the central scenario given in September.
- Year end net debt is forecast to reduce by **£487m** to £625m.

SALES FOR THE THIRD QUARTER AND YEAR TO DATE

The table below sets out the full price sales performance by business channel versus last year for the third quarter and year to date.

Full price sales (VAT exclusive)	Third quarter to 24 October	Year to 24 October
Online	+23.1%	+1.0%
Retail	- 17.9%	- 47.2%
Product full price sales	+4.1%	- 21.6%
Finance interest income	- 13.0%	- 7.4%
Total full price sales including interest income	+2.8%	- 20.5%

¹ Profit before tax is quoted on a 52-week basis. The financial information presented in this document does not reflect the impact of IFRS 16 Leases.

Full Price Sales Analysis by Channel by Week

The chart below shows full price sales by week. Online product sales are shown in blue, Retail in green and interest income in grey. The dotted black line shows the total full price sales for last year.



Product Sales

The sales performance by product category remains very similar to the second quarter, with Home and Childrenswear over-performing while demand for men's and women's formal and occasion clothing remains weak. Online sales remain strong, both in the UK and overseas. In Retail, out of town retail parks continue to perform better than high streets and shopping centres.

Finance Interest Income

Finance interest income fell by -13% in the third quarter driven by lower customer balances, which were down -16% on the previous year. These lower balances were as a result of much lower credit sales during lockdown in March, April and May (in the first half, credit sales were down -26%). In the third quarter, we saw a significant recovery in credit sales, which were up +1% against last year.

Monthly customer payments (as a percentage of customer balances) in the third quarter were 14.8%, a material increase on the same measure last year which was 12.5%. Default rates remain below last year. So as yet, we have not seen any adverse effects on the quality of our consumer debt. However, with current levels of economic uncertainty, we are maintaining the additional £20m bad debt provision that we charged in the first half.

We expect that improving credit sales (which would increase average balances) will be offset by higher payment rates, resulting in average balances and interest income remaining down around -16% in the fourth quarter.

Markdown Sales

Markdown sales were down -12.3% against last year. This reduction was driven by (1) lower footfall in our Retail stores and (2) capacity constraints in our Online warehouses, where we have chosen to prioritise full price sales over our clearance operation.

SALES, PROFIT AND CASH SCENARIOS

We have revised our guidance scenarios for the fourth quarter, which are set out below. There remains a very high degree of uncertainty in our estimates and much will depend on the progress of the pandemic, along with the Government and consumer reaction to developments. Our assumptions for each scenario regarding further lockdowns, Retail footfall, capacity constraints and stock are also given in the table. We would not want to give the impression that the assumptions below and their consequences are scientific or precise; they are intended to give an indication of the sort of things that might help or hinder sales in the run up to Christmas.

	Upside	Central scenario	Downside
Q4 full price sales	0%	- 8%	- 20%
Further lockdowns²	No further lockdowns	Further local lockdowns	Two weeks of store closures in England, Scotland and Northern Ireland
Retail footfall	Busier stores prove no further deterrent to Retail shopping	Some customers begin to avoid shops as they get busier in the run up to Christmas	Significant reduction in peak Christmas footfall
Online warehouse capacity constraints	Warehouses succeed in operating at maximum capacity every day in the run up to Christmas	Capacity constraints and increased self-isolation rates begin to impact sales in the peak weeks before Christmas	Significant capacity constraints and widespread self-isolation in the run up to Christmas peak
Stock	Stock levels now sufficient to achieve all scenarios		

Further Store Closures

The biggest single unknown is whether England, Scotland and Northern Ireland will follow Wales' decision to shut non-essential retail shops. A two week lockdown in England, Scotland and Northern Ireland in November would reduce Retail full price sales by around £57m³ (depending on timing), representing 17% of Retail full price sales and 6% of the Group's full price sales in the quarter.

We have found no evidence of the virus being transmitted in our stores; nor are we aware of any studies that suggest clothing and homeware retail presents a significant risk of infection.

² The effect of current lockdowns in Wales and Eire is included in all scenarios.

³ VAT exclusive sales.

Second Half and Full Year Full Price Sales Estimates

For completeness, based on our new scenarios, full price sales growth in the second half and full year are set out below.

Full price sales versus last year	Upside	Central scenario	Downside
Fourth quarter	0%	- 8%	- 20%
Second half	+1%	- 3%	- 9%
Full year	- 15%	- 17%	- 20%

Profit Before Tax, Cash and Net Debt

Based on these three scenarios for full price sales, the expected profit and net debt at the end of the year are set out below.

Profit before tax, cash and net debt	Upside	Central scenario	Downside
Profit before tax	£400m	£365m	£290m
Reduction in year end net debt	£497m	£487m	£417m
Year end net debt ⁴	£615m	£625m	£695m

Based on our central scenario we anticipate profit before tax of £365m and for year end net debt to fall by £487m to £625m, which is comfortably within the Company's cash resources of £1.6bn⁵ and represents 63% of the value of forecast year end nextpay receivables of £1bn.

Profit before tax is shown on a 52-week basis. This year is a 53-week year and we anticipate that the extra week will add around £12m to profit.

Reconciliation of Revised Profit and Cash Flow numbers

Our new central scenario for profit before tax of £365m is £65m higher than the central scenario given in September. Our cash flow forecast has increased by £25m, which is £40m less than our increase in profit forecast. This is mainly as a result of a £30m acceleration in warehouse capital expenditure.

⁴ Year end net debt at 53rd week.

⁵ Bond and bank facilities of £1.6bn do not include the Government's COVID Corporate Financing Facility (CCFF). Although our application to the CCFF was accepted, we do not expect to draw on this facility.

BREXIT PREPARATIONS

In September 2018 and 2019 we issued detailed papers⁶ describing our Brexit preparations and an impact analysis of the UK leaving the EU without a trade agreement.

We are well prepared and have set up all the administrative, legal and physical infrastructure that will be needed to operate effectively at the end of the current transitional arrangements. This is the case whether the UK and EU reach a trade agreement or not.

There have been two significant changes since last year:

- 1) The Temporary Tariff regime will be updated to the UK Global Tariff, effective from 1 January 2021.
- 2) The agreement of the Northern Ireland Protocol.

Impact of the UK Global Tariff

We anticipate that the new tariffs will increase NEXT's annual import duty costs by around £13m (based on pre-COVID levels of sales). We had previously estimated that the Temporary Tariff Regime would reduce NEXT's import duty costs by around £25m.

The £13m cost increase would only add +0.3% to prices in theory, but in reality much of this increase is likely to be offset through re-sourcing or renegotiation.

Northern Ireland Protocol

The Northern Ireland Protocol was agreed by the UK Government in October 2019 and aims to avoid the introduction of a hard border on the island of Ireland in the event that there is a no-deal Brexit. The Protocol means that UK authorities apply EU customs rules to goods entering Northern Ireland. This requires a new administrative process for goods entering Northern Ireland from the rest of the UK.

There is, as yet, no clear guidance on what administrative measures will need to be put in place, but we do not anticipate it will present a material threat to our trade in Northern Ireland or Eire. However, we would encourage the UK Government to provide clarification of the process as soon as possible.

Ports

The biggest single risk of a no-deal Brexit is that our ports do not cope effectively with increased levels of administration. The highest risk point of entry is Dover, though we have relatively little stock (less than 2%) entering through this port.

Brexit Summary

A no-deal Brexit is not NEXT's preferred outcome. However in the event the UK does leave without a deal, we remain confident that our own systems are well prepared for no-deal. So, as long as our ports continue to operate effectively, we do not believe that a no-deal Brexit poses a material threat to the ongoing operations or profitability of the Group.

CHRISTMAS TRADING STATEMENT

We intend to issue an update on sales to Saturday 26 December 2020 on Tuesday 5 January 2021.

⁶ <https://www.nextplc.co.uk/~media/Files/N/Next-PLC-V2/documents/2019/Brexit%20paper%20Sept%202019%20Finalv2.pdf>

Forward Looking Statements

Certain statements in this Trading Update are forward looking statements. These statements may contain the words “anticipate”, “believe”, “intend”, “aim”, “expects”, “will”, or words of similar meaning. By their nature, forward looking statements involve risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. As such, undue reliance should not be placed on forward looking statements. Except as required by applicable law or regulation, NEXT plc disclaims any obligation or undertaking to update these statements to reflect events occurring after the date these statements were published.