NEXT

Results for the Year Ending January 2024

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PART TWO
THE BIG PICTURE

INTRODUCTION

A GOOD PLACE TO START THE YEAR…

It has been a long time since we started a year in a more positive frame of mind. Last year was much better than we anticipated at this time last year, and the Group has delivered its highest ever levels of revenue and profit. Perhaps more encouragingly, we enter the financial year with new avenues of growth along with a cost base that feels under control.

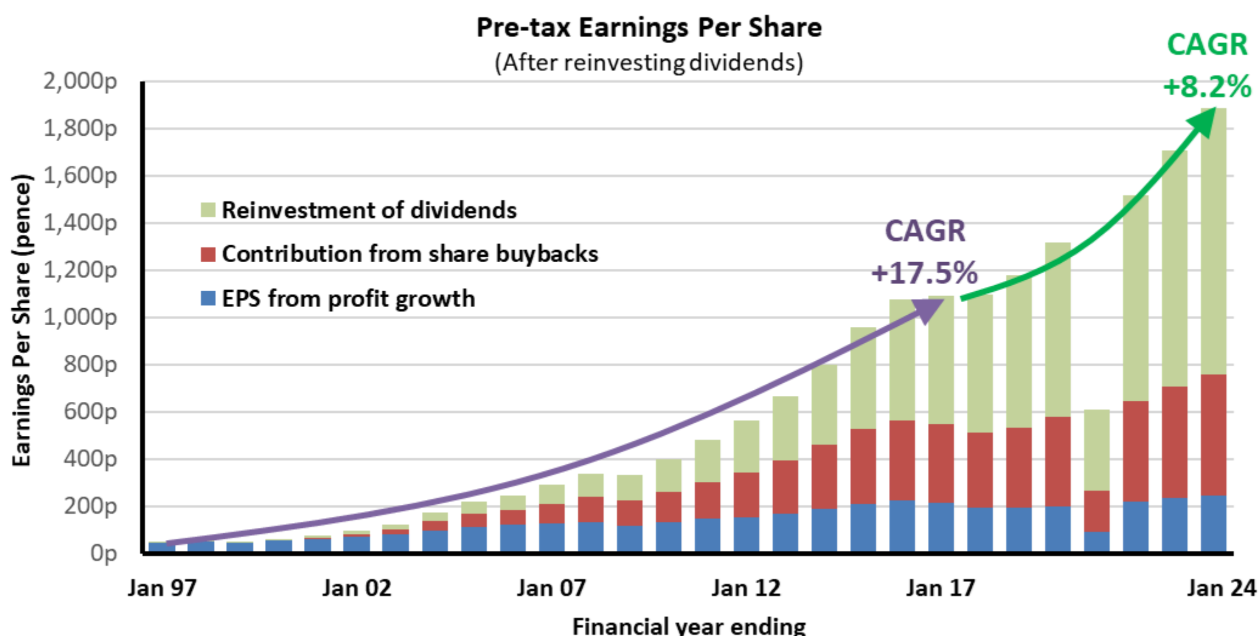
A valuable point of self-reflection

So this report should have been easy to write; it has not. The Group has evolved so much in the last seven years and, in many ways, it feels like we are now entering a new era. With so much to explain, articulating how we plan to take the Group forward in a concise and simple way has been demanding. The aim has been to add enough detail to make it meaningful, without so much detail as to make it arduous.

As is so often the case, the requirement to explain ourselves has been instructive. It has prompted us to step back from the myriad of day-to-day initiatives with which we busy ourselves and reflect on where we are; take a hard look at our two main engines of growth - the **NEXT brand** and its **Infrastructure** - clarify our priorities; and determine what we need to do to maximise our chances of success going forward. Before going into all that, it is worth putting where we are in context.

WHERE WE ARE IN CONTEXT

The Company's financial goal is to deliver sustainable, long term, growth in Earnings Per Share (EPS). Whilst there are many ways to boost share prices in the short term, in the long run the best way to grow the value of a company is to grow its EPS. The chart below shows the growth in the Company's pre-tax EPS since 1997; the blue bars show the effect of underlying profit growth, the red bars show the enhancement from share buybacks, and finally the green bars show the effect of reinvesting dividends. It clearly illustrates two very different eras for the Group; twenty 'glorious' years to 2017 and seven leaner (though respectable) years, from 2017 to the present day.



1997 - 2017: Twenty years of plain sailing

In hindsight, the twenty years from 1997 to 2017 were plain sailing, though it did not feel like it at the time. There were three avenues of profitable growth: (1) increased Retail space, (2) more Directory/Online customers and (3) the expansion of our product offer. These activities were highly cash generative. From 1997 to 2017 £4.4bn of surplus cash was returned to shareholders through share buybacks and special dividends. In total, during this period, we bought back 61.5% of shares in issue. The combined effect of rising profits, reducing share numbers and regular dividends meant that pre-tax EPS[6] increased by a compound annual growth rate (CAGR) of 17.5% in the period.

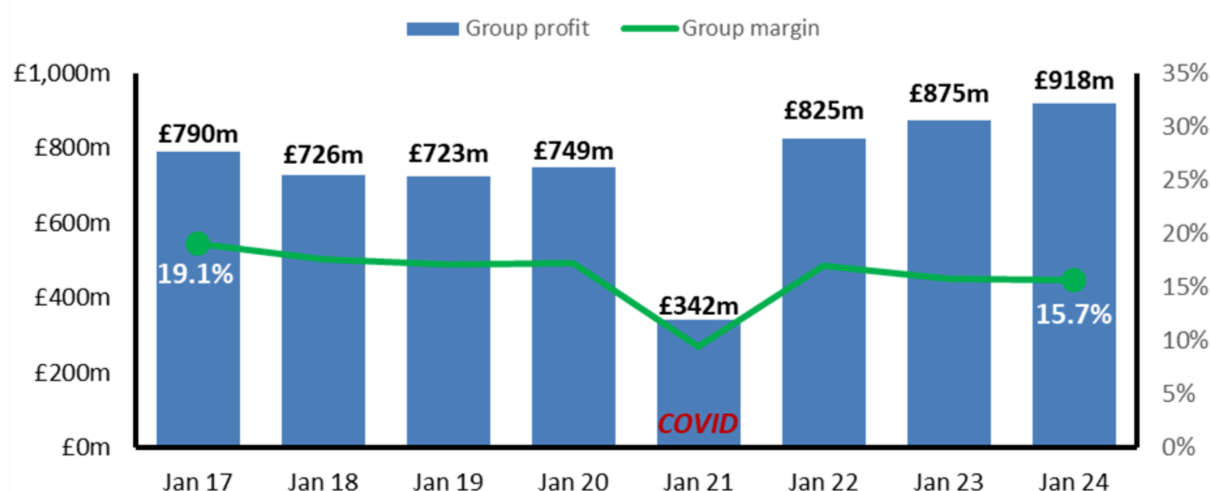
2017: The formula stopped working

We had a formula, or so we thought. In 2017 the formula stopped working (as all business formulas do). NEXT's own growth Online, coupled with growing online competition, began to cannibalise revenues in our stores. Maintaining top line sales across the Group was not enough. With every new Online sale there were additional variable costs; with every lost Retail sale the dead weight of rent, rates, and other fixed costs grew heavier. And then these deep-seated structural challenges were compounded by the pandemic and the subsequent cost-of-living squeeze.

2017 - 2024: A very respectable performance in the circumstances

In the end, we managed to deliver better Online growth than expected, Retail like-for-like sales declines were not quite as bad as we feared and, we painstakingly rebased our Retail cost base to be more commensurate with reduced Retail sales. Group net margins declined, as expected, but revenue growth more than made up for the loss of profitability and we delivered a respectable, if unexciting, increase in profits of **16%** in the period.

Group Pre-Tax Profit[7] and Margins



[6] EPS CAGR calculation accounts for dividends by assuming they were reinvested in NEXT shares when paid.

[7] Profit in the years ending January 2023 and January 2024 are given *excluding* the cost of brand amortisation. (January 2023 was previously reported as £870m.) Prior to January 2023 brand amortisation costs in our accounts were minimal.

THE LESSONS

Core strengths

The ability to weather the storm has been rooted in three core strengths. The ongoing strength of the **NEXT brand**, the exceptional **infrastructure** we have built to sell that product, both underpinned by rigorous **financial discipline**. A discipline that insists on appropriate margins and healthy returns on capital; enforces rigorous cost control; and consistently returns surplus cash to shareholders through share buybacks and dividends.

Cash generation and capital discipline

The ability to generate cash, and return it to shareholders, is often overlooked. It is instructive to note that while profits over the last seven years grew at a compound annual rate of just 2.2%, after accounting for reinvested dividends and share buybacks, the Company delivered a very respectable CAGR in pre-tax EPS of **8.2%.** The table below powerfully demonstrates the contribution of underlying profit growth, share buybacks and dividends (assuming they are reinvested in shares) to the growth in pre-tax EPS.

Contribution to growth in pre-tax EPS 2017-2024	**% Var**
Underlying pre-tax profits	+2.2%
Share buybacks	+2.7%
Reinvested dividends (including special dividends)	+3.3%
Total growth in pre-tax EPS	**+8.2%**

People who embrace change

There is one further asset, as important as the others and probably more, that has gone to the very heart of the Company's performance in good and not-so-good times. The value of talented individuals who are dedicated to the success of the business. People who love our products, ways of working and values enough to move heaven and earth to get the Company through tough times; people who are open to, and enthusiastic about, change and are prepared to take the initiative to develop new opportunities. It is this commitment that has given the Company the ability and agility to adapt and transform the business.

CORE CAPABILITIES AND NEW OPPORTUNITIES

In many ways we emerge from these turbulent years a very different company. We have quietly reinvented NEXT plc, reshaping and restructuring the Group and emerging with new avenues of growth. However, the two capabilities that ultimately power the business remain unchanged: the ability to develop outstanding product ranges, and the creation of highly effective infrastructure to sell and distribute that product. These capabilities have delivered a **brand** that can play on an international stage and **infrastructure** whose value stretches beyond its service to the NEXT brand.

The continuing development of our brand and its infrastructure gives us three distinct, exciting and new avenues of growth.

- The growth of the NEXT brand **OVERSEAS**.
- The development of **NEW BRANDS** and **LICENCES**.
- The generation of revenues from **TOTAL PLATFORM** and its associated equity investments.

In some ways these new opportunities mirror the three avenues of growth that powered the company from 1997 to 2017. They all give our product skills and our infrastructure the opportunity to play to a wider audience. And in doing so, have the potential to create a huge amount of value for our existing customers, new customers and third-party clients.

THE REST OF THE BIG PICTURE SECTION

The rest of this section explains how we are thinking about the development of these capabilities and is divided into the following sections:

THE NEXT BRAND - MOVING ON UP	**Page 10**
IMPROVING NEXT INFRASTRUCTURE	**Page 12**
DEVELOPING THE NEXT BRAND OVERSEAS	**Page 13**
TOTAL PLATFORM	**Page 16**
DEVELOPING GREAT PEOPLE	**Page 17**
SUMMARY	**Page 18**

THE NEXT BRAND - MOVING ON UP[8]

Raising the bar, again

The NEXT brand remains the jewel in our crown; the whole Company's success hinges on the success of NEXT's product ranges. So NEXT's success last year was a reflection of the success our product teams had in designing and selecting their ranges. It is hard to think of a year when we have delivered more consistently across all our product ranges. That said, the bar is constantly rising, and we believe that we can take the NEXT brand to another level.

Leading from the ground up…

Our ranges are built ground up; NEXT does not manage its product ranges from the Boardroom. Individual product ranges are inspired and created by small teams of designers, buyers, merchandisers, and product technologists. The success or otherwise of those areas depends on their talent and decision-making abilities. And where they have been most successful, three clear themes emerge. These are: backing **newness** with conviction, giving our customers genuine breadth of **choice**, and delivering better, more aspirational levels of **quality**.

Each of these themes is mutually reinforcing - embracing newness and improving quality enables breadth of design, which encourages *more* newness which leads to *greater* aspiration. To explain, each will be discussed in a little more detail below.

NEWNESS - DELIVERED WITH CONVICTION

To maximise success, we must deliver this year's *most inspiring*, *most relevant* trends in depth and with conviction; delivered in a way that is accessible and wearable. And nowadays, this year's best seller is *hardly ever* last year's best seller. Last year's best trend will simply never do quite as well in its second year. The internet gives us all the choices we could possibly want, 24 hours a day. People who wanted last year's most important new trend have already bought it; they will not buy as much of it again.

The trick is to learn from sales history without being trapped by it. Teams should start with the range they are inspired to buy for this year. Only once they have a range that satisfies their ambitions, should they sense-check it against what they can learn from last year's data.

BREADTH OF CHOICE

In a single year the NEXT brand produces over 75,000 different products. We can harness that volume to address the differing tastes, lifestyles and budgets of our increasingly diverse customer base; offering genuine breadth of style, fits, colours, fabrics, prints, textures, looks and prices. It is all too easy to produce multiple variations of a similar best-selling style, and as profitable as that may be in moderation, this duplication should not be confused with real choice. There is a balance.

Every season, there are lots of new trends. They will not all produce the best sellers, but they will deliver incremental sales if they add genuine choice. Of course there are boundaries. NEXT must fulfil its mission to deliver beautifully designed, excellent quality clothing and homeware that meet the aspirations of our customers at prices that represent excellent value for money. But this is a broad remit.

Investing in alternative trends, fabrics, price points, or products is rarely a mistake, if we believe in them. And today's peripheral trends have an uncanny habit of becoming more important as time goes on - perhaps even pointing the way to next year's best sellers.

[8] With apologies to M People.

QUALITY AND ASPIRATION

Developing the 'better' and the 'best'

Historically our price-entry product often delivered the greatest cash revenues, but increasingly our buying teams have improved sales through additional choice in the middle and top end of our price architecture[9]. There appears to be something of a shift back to investment dressing with customers buying somewhat fewer, slightly more expensive items. Many teams have experimented at prices that are higher than those we would normally sell; stretching the boundaries of the brand to new levels of quality and design through improved fabrics, prints, embellishment techniques, textures and trims[10]. This initiative has also opened up new sources of supply previously considered too expensive.

Focus on fabrics and yarns

The design of great clothing starts with the development and selection of great fabric. We are actively aiming to further improve the quality of the fabrics and yarns we deliver to our customers. With time, effort and investment in the right skills, along with greater collaboration with our mills, we believe that we can deliver improved fabrics for no greater cost to our customers. It will take us time to invest in the skills and relationships we need to achieve this, but we are very clear about our ambitions.

But no excuse for losing sight of value

There is a risk that colleagues reading the paragraphs above might assume that we have lost interest in our entry price points, for clarity, that is not the case. Many of us can remember the year one of our product departments simply dropped their entry level product altogether; it was an expensive mistake and not one we plan to repeat. We are aiming for newness and improved quality across the whole of our price architecture.

BEYOND THE BRAND

We can and will increase the diversity of the NEXT brand, but there are natural limits to the reach of any brand; the point at which the products required to attract a different type of customer undermines your existing brand. To this end we have started to successfully develop product ranges under different brands. Brands with a different heritage, alternative perspective, and different customer base.

We are delivering these new brands in three ways. Firstly, through the development of new wholly-owned brands such as 'Love & Roses'. Secondly, through the acquisition of existing third-party brands, such as Cath Kidston and MADE. And thirdly, licence agreements with iconic third-party brands where the combination of our specialist sourcing and technical skills with their brand heritage can deliver something neither of us could deliver alone. See page 47 for further detail.

[9] Price architecture refers to the number of products we have at different price points in any product category.
[10] Trim is the generic name given to zips, buttons, branding, rivets, piping, lining, etc.

IMPROVING NEXT INFRASTRUCTURE

Retail Infrastructure is part of what we do…

We were once contacted by a senior 'strategy' consultant, who explained to me that his (very grand) consultancy were experts in the specification and development of retail technology and software. I stopped him and said, "that this was an amazing coincidence, so were we, can we help you?" I was not being facetious, and I apologise if it sounds like that. It is just that we believe that specifying and developing great retail software, great warehousing, effective websites etc. is an essential and important part of what we do. We might not be the best developers of retail systems, but we should certainly aim to be so; it is part of our job.

The Total Platform opportunity

Over the years we have developed outstanding retail software and infrastructure - point-of-sale systems, distribution networks, websites, contact centre operations, automated warehousing, product management systems and more. As the complexity and costs of doing these activities has increased, the potential to monetise this infrastructure has emerged. And this business, called Total Platform, along with its associated equity investments is now making a meaningful contribution to our profits. (See page 52 for further details on the financial performance of Total Platform).

Improving warehousing

Over the course of the coming year we will be delivering a host of important improvements to our warehouse infrastructure. We will be commissioning warehouse picking and packing automation in our new Elmsall 3 warehouse, a development that will deliver a step change in efficiency and capacity. See 'Focus on Warehousing' on page 20.

Website and digital marketing

We will also continue to develop our websites and digital marketing software. Here the focus will be on what is loosely referred to as personalisation: connecting customers with the products that they most want to buy. It is an endeavour that becomes all the more important as the breadth of our product ranges and customer base increases.

Modernising software

Alongside the development of all this new functionality and capacity, we will continue the task of modernising and upgrading our legacy software. It is a huge and costly exercise but one that must be done, and done in such a way that it does not interrupt the flow of new applications to the Group in the meantime. The progress of this modernisation programme, along with some of the ways we plan to become more effective and cost efficient, are detailed in the 'Focus on Technology' section on page 22.

The underlying objectives of infrastructure improvement

It would be easy to lose perspective and get lost in the detail of all these improvements. Developers and engineers can begin to see their engineering and development as an end in itself - software and warehousing improvements for the sake of excellent software and warehousing. We are very focussed on the fact that ultimately all these improvements must deliver at least one of the four following objectives:

- Driving **sales growth.**
- Improving **customer service,** with particular emphasis on the speed and accuracy of our deliveries.
- Enhancing and extending **Total Platform services.**
- **Reducing costs.**

DEVELOPING THE NEXT BRAND OVERSEAS

BETTER THAN EXPECTED GROWTH AND MARGINS

Our Online Overseas business has made good progress, with sales up 17% (+14.5% in constant currency) and net margins improving from 8.6% to 13.0% (see page 44). It is unusual for a business to accelerate its top line growth *and* improve net margins at the same time. This has been achieved through a combination of:

- Improved full price sales with overseas **third-party aggregators,** which grew by +52%.
- Increased spending on **digital marketing**, funded through targeted **price increases**.
- The removal of **unprofitable products** from our overseas offer.

Improving sales on third-party aggregators

The dramatic growth on overseas aggregator sites shows little sign of abating. In part, the growth has been driven by improved stock availability. However, stock availability alone is unlikely to explain these levels of growth. It appears that in some markets, awareness of NEXT is increasing and the brand is gaining momentum. It may well be that the operation of AI-driven search engines on third-party websites is accelerating the visibility of our brand; doing so in a way that could never be achieved through conventional marketing. Encouragingly, in most countries, our direct-to-consumer business is still increasing alongside growth in sales on partners' sites.

Overseas marketing

Historically, our approach to international pricing sought to offer the best possible value, by lowering prices to the level that delivered our target net margin. This approach assumed that our marketing expenditure, as a percentage of sales, would be commensurate with the UK (3.7% of sales).

However, in many overseas territories, our prices were already very competitive, the real challenge was to let potential customers know we existed. In these circumstances, it made sense to selectively raise prices and invest the additional margin into marketing. To that end we increased our marketing expenditure as a percentage of overseas direct[11] sales by +18%, taking it from 4.0% to 4.7%.

The results have been encouraging, sales and customer numbers have moved forward; and returns on marketing expenditure have also increased marginally. In the year ahead we expect overseas direct marketing to increase to 5.1% of sales.

[11] Direct sales exclude sales on third-party aggregator sites.

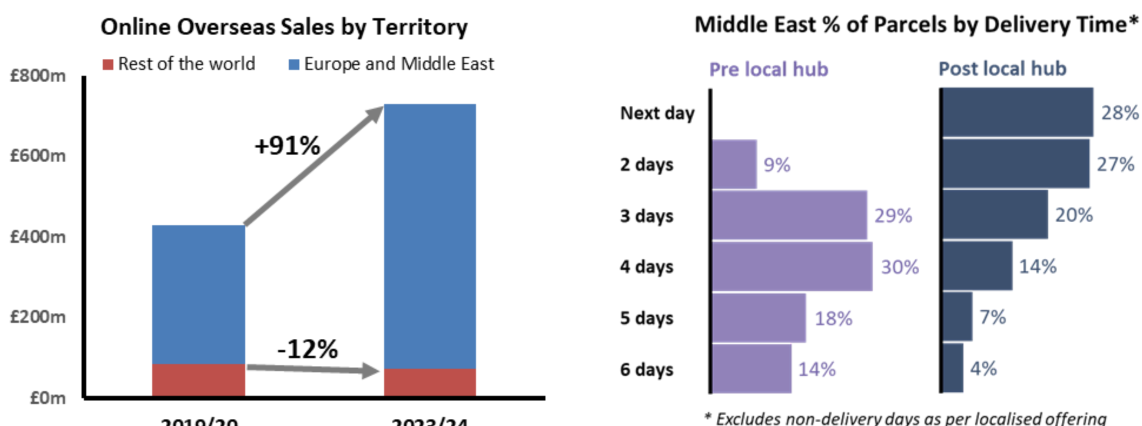
NEAR AND FAR MARKETS

Markets closer to home still dominate

The success of our sales in markets that are closer to home comes in part from greater brand awareness in Europe and the Middle East and as a result of our ability to distribute goods on short lead times at reasonable prices. The chart below shows just how much faster these markets have grown than the rest of the world[12].

Improving service in the Middle East

To help cement our success in the Middle East and further reduce delivery times, we have recently opened a warehouse and distribution hub in the UAE. Around 80% of orders are currently being fulfilled from the hub, with the balance coming from the UK. We expect this number to increase as we fine-tune local stock levels. 28% of orders are now delivered next-day, and more than half (55%) within two days; previously this was just 9%. The graph (below right) clearly demonstrates the scale of improvement.



THE CHALLENGE OF MORE DISTANT MARKETS

Success in the Far East, the Americas and Australasia remains elusive with most territories' sales level with 2019/20 and two significantly down. We believe there are three reasons why we have lost traction in these 'long-haul' territories:

- The improvement in the international appeal of our brand being outweighed by the (often aggressive) growth of online specialists with local operations.
- Serving long haul markets directly from the UK is expensive and slow. Bringing stock from the Far East to the UK, putting it away in expensive warehousing, only to pick and fly it back to the Far East (or other long-haul destinations) cannot make sense.
- Fewer customers have had exposure to the NEXT brand than in Europe and the Middle East.

In order to address these issues we have looked at alternative models for working through third-parties in territories that cannot be effectively served from the UK.

[12] 2019/20 excludes sales in Russia, where we stopped trading in March 2022.

The logic of franchise/wholesale relationships in the Americas, Asia and Australasia

Developing partnerships with strong local retailers and aggregators through wholesale and/or franchise arrangements has the following advantages:

- Partners can leverage their retail and online **infrastructure** and **customer base**.
- Partners can use their **knowledge** of the local market to price and promote our products.
- Stock can be **shipped directly** to partners from manufacturers.

The franchise/wholesale model has the additional advantage of lowering the risk of trading in distant markets (our partners assume most if not all of the stock risk). In effect, in these markets we are trading some of our potential retail margin in exchange for lower risk, ready-made local infrastructure and customer base. In our view, it is a trade worth making.

Progress in the US and Asia

Following a very encouraging trial, we are actively working with Nordstrom (an important US multi-channel retailer with revenues of over USD14bn). We have agreed terms with a second major US retailer and are in active discussion with several others. It is very early days, but the signs are encouraging.

We are also close to finalising a franchising and licensing agreement for NEXT in India and are in very early-stage conversations for similar arrangements in other Asian territories.

TOTAL PLATFORM

Profit and growth

Total Platform (TP) is proving successful. In the year ahead we expect TP, along with its associated equity investments, to contribute £77m of profit to the Group (see page 52), which would represent 8% of Group profit. Three years ago, that number was zero.

A comprehensive platform

While it is possible to individually source the services offered by Total Platform from various excellent third-party contractors, no single organisation can provide the entire integrated package – website, warehousing, customer contact, returns processing, payments, digital marketing, store point-of-sale-systems and distribution, data management, and more. This completeness eliminates the need for clients to engage in complex integration work with multiple partners. Perhaps more importantly, on a day-to-day basis Total Platform manages the complex inter-dependencies and potential conflicts that can arise among these services.

For clients, there is no need to worry about the increasing complexities of online trading or expensive capital investment in warehousing and software. Costs are variable, which eliminates step changes as volumes grow and avoids painful fixed costs if sales decline. But the greatest benefit is that TP allows clients to focus on the activities that really make the difference between success and failure - their product, brand and marketing.

A mergers and acquisitions tool

As discussed at our Half Year Results in September, Total Platform has ended up being more useful as an acquisition tool than a software-as-services business. TP allows us to capture the value of what other acquirers would call synergies. It does so as a profit stream to NEXT, and cost savings and service enhancements to our subsidiary clients. So far, our investment in Total Platform clients, taken as a whole, has been a success; with a return on capital employed of 25% (see page 55 for details).

The value of autonomy

Even if we acquire 100% of a business, we believe it is important to keep thinking about TP services as if we were providing them to an independent client. We want our subsidiaries to maintain their autonomy and preserve their brand's unique points of difference from NEXT. We are anxious to avoid the pitfalls of becoming a 'corporate blob'.[13] In addition, this model forces us to maintain the capital disciplines, cost controls and service improvement programmes that would be business as usual for a third-party service provider.

Investment criteria and acquisition pipeline

Occasionally great brands will become available in which NEXT can acquire a majority stake, such as Reiss and FatFace, and we believe there will be more. It is important to stress that corporate goal-setting will not dictate the pace of our investment. We will only invest in businesses that satisfy our investment criteria. Prospective investments must be a **great brand**, with **great management** (either in place or available), they must be able to **add value** through taking on Total Platform and the **price** must be right.

Service improvement programme

And although TP is successful, we think that there are a myriad of service improvements, functionality enhancements and cost reductions that we can pass on to our clients going forward. These are explained in more detail in 'Focus on Total Platform Enhancements' on page 25.

[13] See 'Avoiding the Pitfalls of the Corporate Blob?' on page 17 of our September 2023 Half Year Results.

DEVELOPING GREAT PEOPLE

All the above may sound like a good plan. But businesses can spend too much time talking about 'strategy' and forget that, however good the plan may be, execution is ninety-five percent of the battle. Getting the detail right is the difference between success and failure; and that is all about the right people, working together to make the right decisions. With that in mind, it is worth saying a little more about our approach to developing great people.

Avoiding platitudes – words must lead to action

We believe the success of NEXT is built on the ambition, hard work and teamwork of its people. But this type of statement is so widely repeated that it risks becoming a platitude: devoid of thought, practical implications, or action. If the claim is to be meaningful, it must have practical implications on our day-to-day ways of working. In particular, the rapid advancement of talent and determined improvement of performance that falls below NEXT's high expectations.

Internal promotions

Whilst it is often beneficial to bring in a fresh pair of eyes and new skills from outside the business, at NEXT we put a great deal of effort into the development and promotion of those within the organisation. This requires the courage to promote talented, ambitious individuals who are unproven in a new position, rather than bringing in a safe-pair-of-hands from outside and already established at that level. It is not uncommon to hear people described as being a year away from being 'ready' for promotion. More often than not, these people enthusiastically seize the opportunity and flourish beyond expectations. Our Chairman talks about his experience of developing 'ordinary folks'[14] who go on to achieve extraordinary things; it is a lesson we have taken to heart.

Honest conversations

Good managers are honest and upfront with people who need to improve. Many people are not comfortable discussing poor performance or unhelpful attitudes, but it is an essential part of being a good manager; and it is only fair to let people know where they stand and help them improve. Conversations about performance can be direct, clear, and timely, whilst at the same time being considerate and polite. As mentioned in previous reports, there is a world of difference between being demanding (which is essential) and being nasty, for which there is never an excuse.

Developing a great team

The success of a team depends on the collective talents, ambitions and efforts of each and every individual in that team. Managers at every level of the organisation should spot and give additional responsibility to those who can do more. At the same we must let those who are struggling to perform know how they can improve, and help them do so. Everyone should have high expectations of themselves and the people they manage. If it is to thrive, a great team cannot accept mediocrity, and a company is just a very big team.

[14] Our Chairman is American.

SUMMARY

A LOT TO DO…

Reading back through this document it is apparent that there is a lot to do. But standing back from the detail, the aims of the business are simple and come down to the following things:

EVEN BETTER PRODUCT

NEXT brand	This is our first and foremost task. We will strive to deliver more newness, greater breadth of design and improved quality. Exceeding the expectations of our existing customers and attracting customers who, until now, might have thought that the NEXT brand was not for them.
New brands and licences	Leveraging and extending our product skills to develop products that reach beyond the natural boundaries of the NEXT brand.

IMPROVING INFRASTRUCTURE

Driving sales	Driving sales, with particular focus on digital marketing and enhancing our website - ensuring that our growing number of customers can find the product they want from within our growing offer.
Improving service	Focusing particularly on the speed and accuracy of our delivery service and brilliant assistance from our contact centres if things don't go to plan.
Reducing costs	It is not enough to deliver good growth and great service. To create value, both must be achieved in a cost-effective way; it is easy to grow amazing services at a cost that makes them unprofitable.
Total Platform services	Improving and broadening the services we offer to TP clients: including improved website content management tools, promotions engine and a comprehensive wholesale system.

All of these objectives are underpinned by our bespoke software, much of which will continue to be modernised as the year progresses.

DEVELOP NEW BUSINESSES

NEXT brand overseas

Extend the global reach of the NEXT brand:

- **Europe and the Middle East:** In markets that are closer to home (through direct marketing and enhanced operations) and further afield.
- **US and Asia:** Develop more efficient ways of reaching customers through partnerships with third-parties. Organisations that already have the infrastructure, knowledge and customer base to accelerate our growth.

Equity and investments

Continue to look for potential investments, equity partners and clients that can leverage our infrastructure through Total Platform and/or our growing licensing capabilities.

CREATING VALUE - THE PRIMARY OBJECTIVE

More than long term growth in earnings per share…

Everything we do at NEXT is underpinned by a very clear financial objective - the delivery of long term, sustainable growth in Earnings Per Share. It is not just a number on a piece of paper, the profit and the returns we make are the best measure we have of ensuring that we create value; that the sum total of what we create is more valuable than the time and resources we expend to make it happen. It is not just a financial measure, it is also a measure of something more profound, the value we add in our working lives to the world around us.

That is important, because every one of us, in some small way, wants to be useful to the world. Ultimately, work is not what we do for an inanimate corporation, it is what we do for other people - our customers, clients, colleagues, suppliers and more. On our own, none of us will make a big difference to the world, but the sum total of the small differences we make together - an amazing shoe, a beautiful print, a more efficient picking system, a brilliant advert, a more reliable delivery service - when added together DO make a real difference. The success of any organisation depends on the flourishing of *individual initiative* along with the *teamwork* and the *leadership* necessary to harness the collective intelligence of the entire organisation.

NEXT aims to create an environment in which people can flourish; a place where they not only feel empowered to take decisions, but understand that decision making and delivering change is part of their job. If we can do this, we have a chance of making the very most of the opportunities that now present themselves to NEXT.

PART THREE
FOCUS ON INFRASTRUCTURE

Part Three gives a feel for the host of improvements we aim to make to our Online and Retail infrastructure. This investment needs to be seen in the context of Total Platform, because it provides additional financial returns for the work we are doing. It is also worth mentioning that providing services to independent third-parties, and having to justify our costs to them, has informed our programme of improvement. The process is not always comfortable but is very valuable.

There are no lasting 'moats' or 'USPs'…

We are, we think rightly, proud of the infrastructure we have built, and it would be easy to convince ourselves that these assets somehow deliver impregnable competitive advantages that others cannot match. But in retail there are no advantages that cannot, in time, be copied or surpassed by others. But *staying ahead* requires a constant and obsessive effort to *improve* our technologies, infrastructure and services. The message to colleagues is simple: a good plan is all very well and good; but execution will make the difference between success and failure, and there is much we can do.

FOCUS ON WAREHOUSING

Elmsall 3

Our new *Elmsall 3* flat-packed[15] stock warehouse will increase NEXT Online's current capacity by c.50%. Within the shell of the building, we have void space which could add a further 34% of current capacity when fitted out. The project has been delivered in three phases, two of which have been delivered, in time and on budget.

- **Phase One** was completed last year when we opened floor space for conventional picking. This reduced operational pressures and meaningfully improved service levels.
- **Phase Two: Automated picking** went live at the beginning of March. This mechanisation reduces the labour required to pick an item by 56%. We aim to ramp up this automation throughout the year so that it accounts for 50% of our picking by November 2024.
- **Phase Three** is planned to go live in October 2024 and facilitates a more **automated packing** process. This reduces the time required to pack a parcel by 36%. We aim to ramp up this automation throughout the year so that it accounts for 50% of our packing by February 2025.

The table below demonstrates the financial effect of Elmsall 3 and other warehouse improvement projects. The phasing of planned cost increases from additional rents, rates, overheads and depreciation are shown in the first row; and estimated savings from enhanced efficiency are shown in the second row.

£m	2022/23	2023/24	2024/25 (e)	2025/26 (e)	Annualised costs
Total cost increases	(5.4)	(9.9)	(16.0)	(1.2)	(32.5)
Total cost savings	-	13.4	20.4	22.5	56.4
Net (costs) / savings	**(5.4)**	**3.5**	**4.4**	**21.3**	**23.8**

[15] Flat-packed stock is delivered in standard cartons and folded. This type of stock accounts for around 90% of our clothing sales and the vast majority of Total Platform clients' stock.

Improving accuracy and costs

Over and above the improvements we expect from the implementation of our new warehouse there are a host of other projects we are undertaking to improve the accuracy of our delivery promise. The table below sets out our key measure of failure (parcels NOT delivered when promised and in full) for autumn/winter of 2022 and 2023. This improvement, along with the improvements we made to our contact centre's software and procedures, has been reflected in a dramatic reduction in the percentage of customers who called us, relative to orders. These improvements not only enhance our reputation, they also serve to reduce costs; every item missing from a parcel has to be sent separately, incurring additional cost.

	Autumn/winter 2022	**Autumn/winter 2023**	**Variance %**
Failure rate (parcels *not* on time and in full)	15%	8%	↓ 47%
Customer contacts as a % of orders	16%	13%	↓ 21%
Trust Pilot scores (January score)	**3.8**	**4.4**	↑ 16%

Whilst these improvements are impressive, our service levels are still below where we would like them to be; and we believe we have plenty of room to improve further. We will be disappointed if we do not reduce our failure rate by at least a third over the course of the coming eighteen months.

Elmsall 3 Warehouse, South Yorkshire

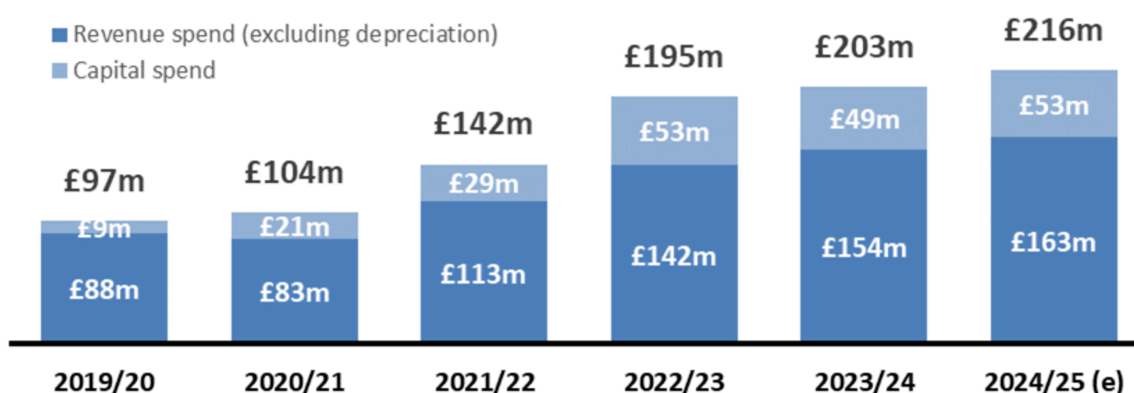
FOCUS ON TECHNOLOGY

A significant increase in technology spend

Over the course of the last five years, we doubled our expenditure on software development. The number of technology professionals has increased from 1,000 to 1,900; meaning that we now employ more people developing technology than in our Product teams. There are three reasons:

- An increasing number of **opportunities** for new systems to generate additional revenues and cost savings. These include Total Platform, new website functionality, overseas distribution hubs, new product areas, new warehouse automation, data security, more advanced customer contact software and more. It appears that virtually every business idea requires a new system.
- The need to **modernise** all our major legacy software applications.
- The rapid expansion of our technology teams **reduced efficiency** as new hires climbed the learning curve, familiarised themselves with our legacy code and business operations.

Technology Cash Spend: 2019/20 - 2024/25 (e)



Platform Modernisation

We believe that developing applications in-house has been key to our success over the past thirty years. However, by 2020, our major software had become overly complex as a result of years of incremental change. This complexity made new developments slow, risky and difficult to test. In response, we have started rewriting these applications into discrete modules, using reliable and scalable cloud technologies where appropriate. We began with operational applications like E-commerce, Payroll & HR, and Contact Centres, and are now moving on to Finance, Data and Product systems. The following table gives a feel for the progress we have made and the costs involved (note only c.80% of the modernisation costs are classed as capex).

	2020	2021	2022	2023	2024	2025	2026	Total project spend (e)	% complete
E-Commerce								**£24m**	96%
Payroll & HR								**£6m**	100%
Product systems								**£12m**	58%
Warehousing							>>>	**£16m**	24%
Contact centres								**£4m**	100%
Data & analytics							>>>	**£3m**	0%
Finance							>>>	**£40m**	5%
								£106m	**55%**
								Weighted	***44%***

AIMING FOR IMPROVED EFFICIENCY

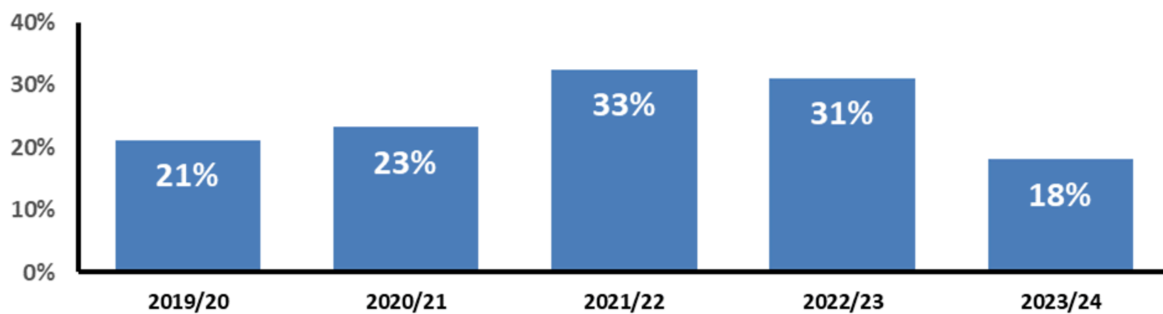
This year we are planning for our cash spend (opex and capex costs) on Technology to peak at £216m, and we aim to steadily reduce this going forward. The aim is not just to save money, our intention is to *spend less* but *deliver more* new functionality. We believe that this is achievable for the following reasons:

- **Steady State Modernisation**. Modernisation costs have steadily increased in the last few years as new projects come on stream; we believe we have now reached a steady state which will persist for the next few years.

- **The Benefits of Modernisation**. The whole point of modernising our software is that it serves to make our software easier to develop, test and maintain going forward.

- **Increasing Experience**. As we reduce the rate at which we take on new technology professionals, we will reduce the inefficiencies of working with large numbers of people who are unfamiliar with our code, business processes and culture. The chart below shows the percentage of our Technology teams that had spent less than 12 months in the business, over the last five years. As can be seen, levels of inexperience have dropped dramatically over the last year.

% of Technology Team With Less Than Twelve Months' Service



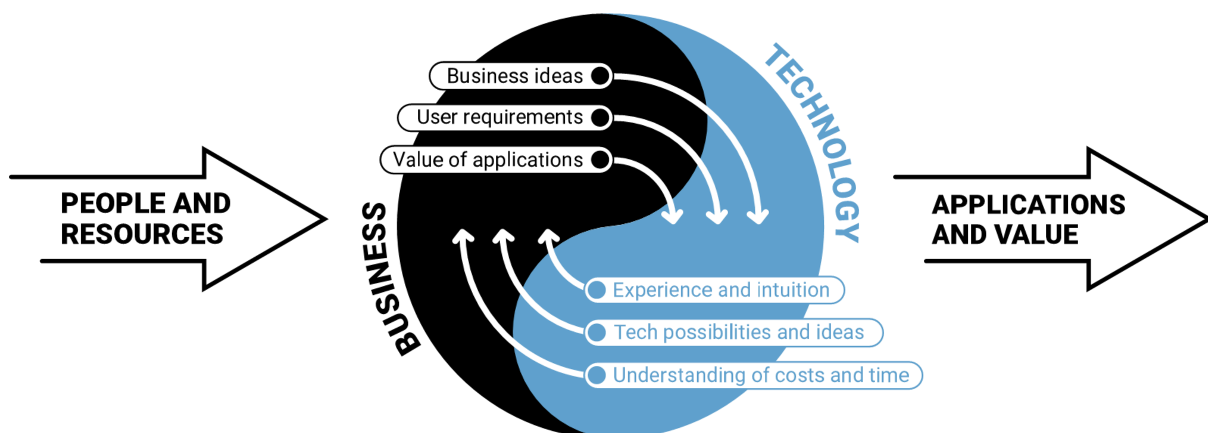
YIN-YANG SYSTEMS DEVELOPMENT

Collaboration between business users and technology professionals, at the *specification stage* of a project can radically improve the speed of development and reduce the costs of new functionality. It is all too easy for business users to specify requirements that, unbeknownst to them, create huge technical complexity and cost. We have learnt that well-informed compromises to our business requirements can increase the speed of development whilst reducing costs.

For example, we recently introduced a new system for managing items returned after the 28-day time limit. By simplifying the live data required for the process, we managed to reduce the costs and development time by more than 50%, for only a small diminution in business functionality.

Business functions have invested time and resources in improving levels of mutual understanding that exist between their areas and our technology teams. This has often involved assigning experienced business managers to act as a point of contact between business operations and software development.

We call this approach "Yin-Yang development" – sometimes a catchy name and graphic help ideas catch on, and we will accept the risk of sounding cheesy. The aim is that we give IT professionals a better understanding of the business, and business managers a better understanding of the costs, limitations and possibilities of technology.



FOCUS ON TOTAL PLATFORM ENHANCEMENTS

Improving the quality and reducing the costs of our services

Whilst Total Platform's current head start might provide some comfort, we know that in order to maintain Total Platform's advantage we have much to do. To that end we have a long list of projects and ideas to improve the **quality** and scope of our services whilst reducing their **costs**. The aim is to pass on the benefit of all these improvements to our clients. Not least, these efforts are essential to support the competitiveness of our most important client, the NEXT brand.

TOTAL PLATFORM WAREHOUSING AND DISTRIBUTION

The paragraphs below set out *some* of the improvements we are planning in the year ahead for our Total Platform warehousing and distribution services.

Enhanced retail picking	Currently TP clients' retail picking is undertaken from our online warehouse. This process (1) can be more efficient and (2) needs to allow clients to better 'ring-fence' stock for their retail and online businesses (currently it is picked on a first-come, first-served basis).
Enhanced retail distribution for smaller stores	Our retail distribution services provide a host of enhanced functionality to stores. For example, they allow them to fulfil online orders from stock held in stores; and deliver online orders next-day to stores. However, in some very small stores, the costs of delivering these additional services are disproportionate to the rewards. So, we need to offer clients a cheaper, less function-rich service in those stores.
Different types of products	At present, most of our clients deliver their products in standard cartons and distribute garments to customers folded. If and when our clients increase their product categories, we will need to extend our services to our other types of warehouses so that goods can be delivered to us (1) on hangers, (2) in non-standard boxes on pallets and (3) as large items of furniture.

WHOLESALE SYSTEMS AND CAPABILITIES

NEXT wholesales very few of its products at present. We have adapted our existing franchise system to allow TP clients to serve their wholesale customers, which works but is far from ideal. We are in the process of designing a comprehensive wholesale system that will drive improvements over the next eighteen months. This programme will, amongst other things, give clients:

- A **catalogue** system allowing their customers to select and order items online.
- **Price management**, allowing different prices to different customers in multiple currencies.
- Improved **contracting**, allowing stock to be pre-assigned and reserved for different clients.
- On-site stock **refurbishment** services, allowing TP clients to label and pack stock to comply with their wholesale customers' specifications.
- More **efficient picking** and storage of wholesale stock.
- The ability to **deliver direct** from manufacturer to UK wholesale clients.
- Improved **invoicing** and **accounting** systems.

The wholesale system will also be important in enabling NEXT to wholesale the new brands and licensed products that we are developing within the Group, such as 'Love & Roses', 'Cath Kidston' and 'smAll Saints' childrenswear. (See page 47 for more information on new wholly-owned brands and licences.)

MORE RESPONSIVE WEBSITE CHANGE PROCESS

Total Platform gives clients complete control over the aesthetics, content, photography and promotion of their online offer. However, the processes used to customise and change the website are somewhat cumbersome, involving some unnecessary administrative steps and delays.

Over the next 12 months, we will deliver new software that streamlines the processes clients use to update every element of their website – from pricing to photography. These enhancements will reduce their reliance on Account Management teams at NEXT, allowing these teams to focus on increasing the value and effectiveness of our clients' sites, rather than managing routine changes.

TOTAL ENTERPRISE PLATFORM - PROGRESS & DEVELOPMENT

Total Enterprise Platform (TEP) gives an even more comprehensive set of software services to clients, providing them with the following functionality:

- **Product Management Systems,** which provide end-to-end management of the buying processes. It allows clients to plan their ranges, price, contract, label, manage freight and inbound logistics, re-forecast, allocate and replenish (retail stores), franchise, and manage margin and markdown.
- **Finance and Accounting** module provides all management and financial reporting services.
- **Payroll & HR** module manages retail and other payroll services.

Of these three services, it is the Product Management Systems (PMS) that adds the most value. It ensures that stock and import processes are compatible with our UK bonded warehousing and allows friction-free, re-export to EU and other countries. The Product functionality will form part of the services we provide to FatFace and we believe it is likely that most new clients will adopt PMS as part of their Total Platform package going forward.

TEP at Joules

Total Enterprise Platform was deployed for Joules in October 2023. In the year ahead we expect TEP to deliver total cost savings of around £4m to Joules.

PART FOUR
GROUP FINANCIAL PERFORMANCE IN 2023/24 AND GUIDANCE FOR 2024/25

NOTES ON THE PRESENTATION OF SALES AND PROFIT

Note 1 - Group sales

Group sales, previously reported in January 2023 as £5,415m, are now £101m higher at £5,516m. This is a result of adding £206m through revenue from investments (see note 2 below) and removing £104m from Total Platform (TP) income (see note 3 below). These changes give a more accurate picture of the Group's underlying net margins in our TP Services business and Equity Investments, by aligning the way in which we report sales with the way we report profits.

Group sales previously reported in January 2023	**5,415**
Revenue from investments (£239m, versus only £33m of Joules' sales previously reported in 'other' sales, as the only consolidated equity investment)	+206
Total Platform (£126m of sales at gross transaction value (GTV) replaced with £22m of commission)	- 104
Group sales restated for January 2023	**5,516**

Note 2 - Revenue from investments

As set out in our January Trading Statement, we have changed our approach to reporting sales in our subsidiaries. In short, this turnover figure is calculated using our share of our subsidiaries' turnover. For example, going forward we own 72% of Reiss so will include 72% of their sales[16] in our top line. Please see Appendix 3 on page 71 for full details.

Note 3 - Total Platform services income

This year we have changed the presentation of **Total Platform sales.** January 2023's TP sales, previously reported as £144m, are now £40m. The £104m reduction is because last year we reported TP sales as (1) the gross transaction value (GTV) taken through our clients' websites plus (2) the income generated from the services we provide on a 'cost-plus' basis (such as retail services). This year, we have decided *not* to report our clients' GTV as sales but, instead, report the *commission* earned by NEXT on our clients' online sales. Revenues from cost-plus services remain as reported.

Note 4 - Brand amortisation costs

As explained in January, we now exclude brand amortisation (a non-cash accounting cost) from our headline profit. The table below shows last year's reported profit and the change made. Full details explaining this change are given in Appendix 2 on page 70.

Profit adjusted for brand amortisation £m	**Jan 2023 as reported**	**Brand amortisation**	**Jan 2023 restated**
Total Platform services and investment	16.3	+4.3	20.6
NEXT Group profit before tax	870.4	+4.3	874.7

Note 5 - Rounding convention and casting

Figures shown in tables throughout the CEO Review are shown in millions or rounded to one decimal place. Subtotals, totals and variances shown in tables are all based on the *actual*, unrounded figures; tables are not adjusted for casting purposes.

[16] This figure excludes their LABEL sales (100% of which are included in our Online sales), Total Platform commission and revenue from TP cost-plus services (which are included within Total Platform sales).

GROUP SALES AND PROFIT SUMMARY

Full price sales in the year were up **+4.0%** versus last year. Total Group sales, including subsidiaries and equity investments, were up **+5.9%**. Group profit before tax was **£918m**, up **+5.0%,** pre-tax EPS was up **+7.4%** and post-tax EPS was up **+0.3%**.

TOTAL GROUP SALES BY DIVISION

TOTAL GROUP SALES (VAT EX.) £m	Jan 2024	Jan 2023[17]	Var %
Online	3,160	3,007	+5%
Retail	1,865	1,865	- 0%
Finance	293	274	+7%
Total NEXT Trading sales	**5,317**	**5,146**	**+3.3%**
Total Platform	52	40	+31%
Franchise, Sourcing, Property & Other	89	91	- 2%
Total NEXT sales	**5,459**	**5,277**	**+3.4%**
Revenue from investments	383	239	+60%
Total Group sales	**5,842**	**5,516**	**+5.9%**
Statutory revenue	5,491	5,034	+9.1%

Walk forward from our headline Group sales to statutory sales

The differences between our headline Group sales and statutory sales are summarised in the table below. By way of reminder, within NEXT Trading sales we report the gross transaction value (GTV) of items that are sold on a commission-basis (mainly in LABEL Online, which sells third-party branded products). Under statutory reporting, instead of reporting the GTV, only the *commission earned* is reported as revenue.

£m	Jan 2024	Jan 2023[17]
Total Group sales	**5,842**	**5,516**
less LABEL & Overseas commission sales (full price and markdown)	- 564	- 552
plus commission earned on LABEL sales	+206	+206
less sales from investments that are not consolidated in NEXT's accounts (Note 1)	- 162	- 218
plus the minority interests' share of sales in subsidiaries that are consolidated in NEXT's accounts (Joules, Reiss and FatFace)	+87	+15
plus other income (e.g. delivery charges)	+80	+67
Total Group statutory sales	**5,491**	**5,034**

Note 1: The drop in this number is mainly due to the change in control in Reiss at the end of September 2023, which means that sales from that date onwards were consolidated into statutory sales. Sales in the equivalent time period last year were *not* consolidated.

[17] Group sales are restated for January 2023, see page 27.

SUMMARY OF GROUP PROFIT BY DIVISION

PROFIT £m and EPS	Jan 2024	Jan 2023[18]	Var %
Online	517	467	+11%
Retail	245	240	+2%
Finance (after funding costs)	163	171	- 4%
Profit from Trading	**925**	**878**	**+5.3%**
Total Platform services and investments[19]	38	21	+86%
Property (including provisions)	2	37	- 95%
Franchise and wholesale	6	7	- 17%
Central costs, FX, Sourcing and Other	(23)	(31)	- 24%
Recharge of interest from Finance	48	34	+39%
Operating profit	**996**	**947**	**+5.2%**
Lease interest	(47)	(47)	- 1%
Operating profit after lease interest	**949**	**900**	**+5.5%**
Underlying operating margin	*16.2%*	*16.3%*	
External interest	(31)	(25)	+24%
NEXT Group profit before tax	**918**	**875**	**+5.0%**
Taxation	(216)	(159)	+36%
Profit after tax	**702**	**716**	**- 2.0%**
Pre-tax Earnings Per Share	**757.2p**	**704.8p**	**+7.4%**
Post-tax Earnings Per Share	**578.8p**	**576.8p**	**+0.3%**
Statutory profit before tax	**1,016**	**869**	**+16.9%**

Walk forward from our headline NEXT Group pre-tax profit to statutory pre-tax profit

Statutory profit of £1,016m is higher than our reported headline figure of £918m mainly due to the £109m exceptional, non-cash, accounting gain from the Reiss acquisition. In addition, statutory profit includes the cost of brand amortisation and the consolidated profits/losses from minority interests in Joules, Reiss and FatFace. These differences are summarised below.

£m	Jan 2024	Jan 2023[18]
Headline NEXT Group profit before tax	**918**	**875**
Exceptional accounting gain on the acquisition of Reiss	*109*	*n/a*
Cost of brand amortisation (see page 70)	*-10*	*-4*
Profit/losses from minority interests in Joules, Reiss and FatFace	*-1*	*-1*
Total Group statutory profit before tax	**1,016**	**869**

[18] NEXT Group profit has been restated to remove the cost of brand amortisation, see page 27.

[19] TP profit excludes £4m of preference share and loan interest from our investments, which is reported within the interest line of the P&L. Total Group profit for TP *including* interest is £43m. See page 52 for more detail.

SALES AND PROFIT GUIDANCE FOR 2024/25

Our full year guidance for sales and profit in 2024/25 (before exceptionals) remains unchanged since our January Trading Statement and is set out below.

OUTLOOK FOR COSTS AND DEMAND IN 2024/25

Our outlook for 2024/25 has changed little since our January Trading Statement. On the face of it, the consumer environment looks more benign than it has for a number of years, albeit there are some significant uncertainties. The table below summarises the positive factors and risks we have balanced in our sales guidance for the year ahead:

Positive Factors

Wages rising faster than prices

UK wages are rising faster than inflation. (See Real Earnings Growth chart below). For many consumers this will ease the pressure they have felt on their cost of living for the last eighteen months.

No inflation in our selling prices

Selling price inflation in our own products has reversed, mainly as a result of decreasing factory gate prices. Selling prices on like-for-like goods[20] are currently down -2.0%, and we expect deflation of -0.5% in the second half.

Risk Factors

Weakening employment market?

Although rising wages are good for sales, it seems likely that they will result in reduced employment opportunities in the wider economy. Vacancy rates continue to fall and, if that trend continues, it is likely to result in increased unemployment.

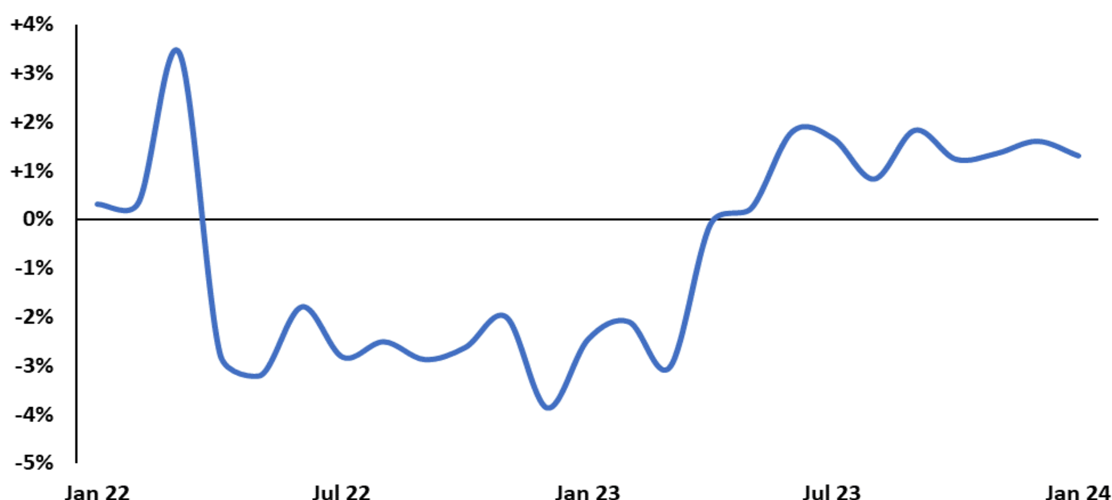
Mortgage rates?

Fixed rate mortgage deals will continue to expire and require refinancing at higher rates.

Suez Canal Update

We do not currently anticipate any material adverse impact from stock delays. On average, transit times have been extended by 7-10 days and our product teams have adjusted the timing of their contract bookings to account for this delay. In addition, higher freight costs have been factored into our prices going forward but we still anticipate that our prices will fall as outlined above.

Real Earnings Growth[21]



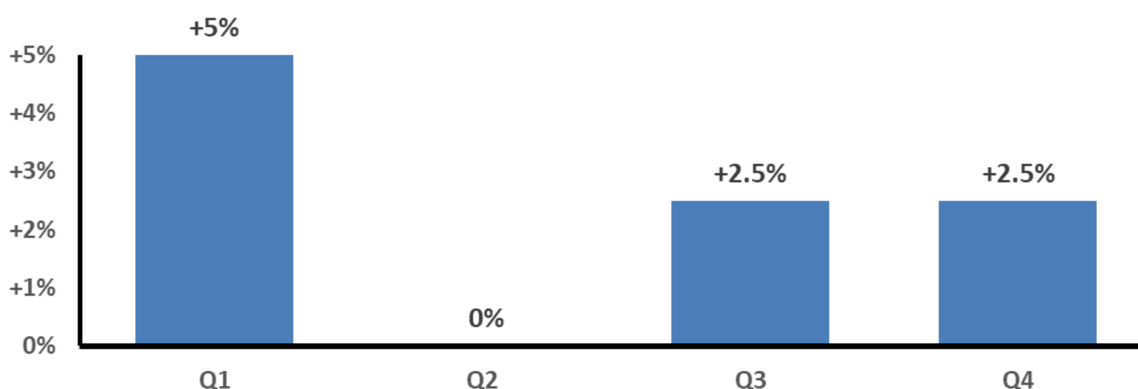
[20] Price increases are solely assessed based on items that we also sold last year (i.e. like-for-like goods). There is no comparative price for new designs. These like-for-like items account for around 30% of our sales.

[21] Source: ONS - Year on year change in Real Average Weekly Earnings, total pay, seasonally adjusted (A3WV).

GUIDANCE FOR FULL PRICE SALES BY QUARTER

We expect full price sales for the full year to be up **+2.5%**. Within the first half we anticipate that the quarters will perform very differently, with sales in the first quarter up +5% and flat in the second. This is because Q1 sales last year were poor (down -0.7%), with unusually cold and wet weather in the run up to Easter; in contrast Q2 was very strong (up +6.9%), with exceptionally warm weather at the end of May and throughout June. Our guidance by quarter is set out below.

Full Price Sales Guidance 2024/25 (e) vs 2023/24 by Quarter



Full Price Sales Guidance by Division

Full price sales growth versus 2023/24	First half (e)	Second half (e)	Full year (e)
Retail	- 2%	- 2%	- 2%
Online	+5%	+5%	+5%
Total full price sales (including Finance interest income)	**+2.5%**	**+2.5%**	**+2.5%**

GUIDANCE FOR TOTAL GROUP SALES

Total Group sales, including subsidiary companies and equity investments, are expected to grow by **+6.0%**. This figure is calculated using our share of our subsidiaries' turnover. For example, we own 72% of Reiss so we include 72% of their sales[22] in our top line. For a more detailed explanation of how we report headline Total Group sales please see Appendix 3 on page 71.

[22] This figure excludes their LABEL sales (100% of which are included in our Online sales), Total Platform commission and revenue from cost-plus services.

GUIDANCE FOR PROFIT BEFORE TAX AND EPS

Guidance for sales, profit before tax (before exceptionals) and EPS is summarised below.

Guidance for the full year 2024/25	% Versus 2023/24	Full year £ (e)
Full price sales (underlying)	+2.5%	
Total Group sales including subsidiary companies	+6.0%	
NEXT Group profit before tax	+4.6%	£960m
Pre-tax EPS	+6.3%	805.2p
Post-tax EPS	+4.8%	606.3p[23]

Our forecast pre-tax EPS growth is +6.3%. This is +1.7% higher than growth in profit, due to share buybacks. An increase in our effective tax rate (ETR) will reduce growth in post-tax EPS down to +4.8%. In April 2023 the headline UK Corporation Tax rate increased from 19% to 25% which led to a blended tax rate for the year of 24%. In the year ahead the tax rate will be at the higher level of 25%.

Further details on our ETR are given on page 58.

An exceptional non-cash charge of c.£20m

This year we expect to incur a non-recurring, non-cash, charge of around £20m relating to our defined benefit pension scheme, which was closed to new members in 2000. In January 2024 the Trustees, with the Company's support, purchased an insurance policy to safeguard all future pension payments (a 'buy-in') and within the next two years we expect to move the pension scheme to a full 'buy-out', meaning the scheme will be managed by the insurance company and removed from our balance sheet.

This charge will not affect the Company's cash flow and will be treated as **exceptional**, so it will not be included in our forecast headline profit.

[23] Guidance for post-tax EPS was previously 603.4p; this was updated to reflect our latest forecast for tax, surplus cash and share buybacks.

Profit Walk Forward from 2023/24 to 2024/25 (e)

The table below walks forward our profit before tax from last year (ending January 2024) to our guidance for the year ending January 2025.

		£m
Profit before tax 2023/24		**918**
Profit from full price sales, Total Platform and subsidiaries		
Profit from +2.5% (£120m) increase in full price sales	+36	
Additional profit from Total Platform services[24]	+4	
Additional profit from Total Platform equity (including new acquisitions)	+30	
Total profit from full price sales, Total Platform and subsidiaries		**+70**
Cost savings		
Staff incentives (budgeted to return to normal levels)	+24	
Bought-in gross margin	+17	
Electricity rate	+12	
TP integration costs	+6	
Warehousing (+£20m of cost savings offset by -£16m cost increases from Elmsall 3)	+4	
Other	+3	
Total cost savings		**+66**
Cost increases		
Wage inflation (including third-party wages, e.g. couriers)	- 60	
Technology (of which -£8m is amortisation of software)	- 17	
Markdown (higher surplus and lower clearance rates)	- 13	
Marketing (growing faster than sales)	- 4	
Total cost increases		**- 94**
Profit before tax 2024/25 (e)		**960**
Growth versus 2023/24		+4.6%

Cost increases and cost savings

The largest cost increase will be wage inflation, which we expect to be around £60m. Within this, around £25m is the difference between the expected rate of general UK wage inflation, and the rise in the National Living Wage. To mitigate some of this cost increase, we plan to recover c.£17m by increasing our bought-in gross margin by +0.4%. Despite this increase in margin, we expect a small reduction in selling prices in the year ahead.

[24] In our January Trading Statement we estimated that we would make £6m of additional profit from our TP services business. Since then we have reallocated £2m of licensing profit, which we believe is more accurately described as equity profit.

PART FIVE
RETAIL, ONLINE, FINANCE, TOTAL PLATFORM & OTHER BUSINESS

NEXT RETAIL

HEADLINES

- Full price sales up +0.2% versus last year
- Like-for-like[25] full price sales up +1.8%
- Total sales (including markdown sales) flat on last year
- Retail profit[25] £210m, up +3.0%
- Net margin[26] 11.3%, up +0.3%

SUMMARY OF RETAIL SALES AND PROFIT

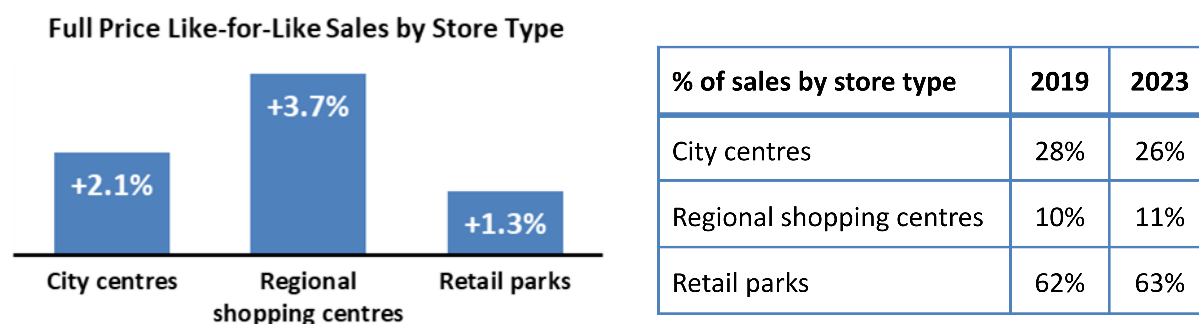
Retail sales and profit for the year are summarised in the table below.

Please note that Retail profits and margins are given *after accounting for the cost of lease interest[27].* Retail's lease interest is down -5% versus last year, due to the reduction in lease liabilities.

£m	Jan 2024	Jan 2023	Var %
Total sales	1,865	1,865	- 0.0%
Operating profit	245	240	+1.7%
Lease interest charge	(34)	(36)	- 5.3%
Retail profit including lease interest	**210**	**204**	**+3.0%**
Retail margin % (including lease interest)	11.3%	11.0%	

FULL PRICE SALES BY STORE TYPE

Full price sales, on a like-for-like basis, were up +1.8% on the prior year; growth by store type is shown below, along with the percentage of sales that each store type accounts for. The participation of sales by store has now returned to those seen pre-COVID as demonstrated in the table on the right below.



% of sales by store type	2019	2023
City centres	28%	26%
Regional shopping centres	10%	11%
Retail parks	62%	63%

[25] Like-for-like sales growth excludes the impact of store closures and store refits.
[26] After deducting Retail lease interest costs.
[27] Lease interest is reported in the Interest line of the P&L. £34m is the proportion of the Group's total lease interest (£47m) attributable to the Retail business. The balance is charged to Online (£11m) and other Group activities (£2m).

RETAIL MARGIN ANALYSIS

Net margin in the year was 11.3%, up +0.3% on last year. The margin impact of major cost categories is summarised below.

Retail net margin (after lease interest) on total sales to January 2023		**11.0%**
Bought-in margin	Lower freight costs increased the bought-in margin.	+0.4%
Markdown	Surplus stock levels were down -17% versus last year and clearance rates were up +3.4%.	+0.7%
Payroll	Wage inflation (-0.9%) was partially offset by productivity improvements (+0.4%).	- 0.5%
Store occupancy costs	Occupancy costs reduced as a percentage of sales for the following reasons: ● Business rates were lower than last year due to the rates revaluation for shops, effective from April 2023 (+0.7%) ● Fully depreciated assets resulted in lower depreciation (+0.4%) ● Lease renewals reduced the cost of rent, rates and service charge (+0.2%) ● Higher electricity rates (-0.9%) were partially offset by initiatives to reduce usage (+0.3%) ● Prior year credits relating to rent settlements and rates rebates were not repeated this year (-0.5%)	+0.2%
Warehousing & distribution	Operational efficiencies and the benefit of higher selling prices (+0.5%) improved margin. This margin benefit was partially offset by cost inflation, mainly in wages and fuel (-0.3%).	+0.2%
Central costs and staff incentives	Higher staff incentives, inflationary cost increases across head office departments (-0.5%) and increased spend in technology (-0.2%).	- 0.7%
Retail net margin (after lease interest) on total sales to January 2024		**11.3%**

Guidance for Retail Sales and Profit for the Full Year to January 2025

In the year ahead we are forecasting Retail full price sales to be down -2% versus last year. Based on this sales guidance we expect Retail net margin, including lease interest, to be 10.5%. The reduction in margin is mainly due to inflationary cost increases, such as wages.

LEASE RENEWALS AND COMMITMENTS

Lease Renewals in the Year to January 2024

In the year, we renewed 56 leases, with an average lease term of 3.9 years (weighted by value, to the earlier of the break clause or the lease end). These new leases reduce our annualised occupancy cash costs by **£6.7m**. The number of leases renewed in the year was lower than the estimate of 73 given in our Half Year Results in September. The remaining leases are still under negotiation; eight are in the final stages of legal agreement, and we anticipate renewing the remaining nine in the first half of 2024.

Lease renewals can be split into two different types of leases: (1) traditional rent leases and (2) 'total occupancy cost' (TOC) leases, where we pay a fixed percentage of turnover to cover rent, business rates and service charge. The occupancy cost savings (in cash terms[28]) from these lease renewals are summarised in the tables below. For clarity we have shown TOC leases separately, to show the overall saving in rent, rates and service charge combined.

Traditional rent leases	**No. of leases**	**Before renewal**	**After renewal**	
Fixed rent charge	39	£10.7m	£8.9m	- 17%
Turnover rent	6	£3.6m	£1.1m	- 70%
Total	**45**	**£14.3m**	**£10.0m**	**- 30%**
Total occupancy (TOC) leases				
Total occupancy lease (rents, rates and service charge)		-	£5.3m	
Previous rent		£4.3m	-	
Previous rates and service charge		£3.4m	-	
Total occupancy - rent, rates and service charge	**11**	**£7.7m**	**£5.3m**	**- 31%**
TOTAL COMBINED LEASE RENEWALS				
Total lease renewals	**56**	**£21.9m**	**£15.2m**	**- 31%**

In addition to the occupancy cost reductions detailed above, we received **£3.8m** from capital contributions and rent free periods, which we will spend upgrading and maintaining our stores.

Outstanding Lease Commitments

At the end of January 2024, our average lease commitment (weighted by value) was 4.5 years, compared with 4.7 years at the same time last year. Fifty per cent of our store leases (by value) will expire or break within 3.9 years and 95% within the next ten years.

Forecast Lease Renewals in the Year Ending January 2025

We anticipate renegotiating[29] 74 store leases in the year ahead and based on our latest negotiations we expect to reduce our annualised occupancy cash costs by around £3m (-16%). The average lease term (to the earlier of the break clause or lease end) is expected to be 3.9 years. The expected rent reduction of -16% is lower than we have achieved in recent years. This is because some of the leases coming up for renewal this year have already been renegotiated since 2018; these stores are already on post-pandemic levels of rent and so reductions are likely to be small.

[28] Note that the savings given here are the actual rents payable rather than IFRS 16 rent depreciation.
[29] This includes renegotiations at either lease end or a lease break.

RETAIL SPACE

The year-on-year change in store numbers and square footage for the year to January 2024 is set out below.

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2023	**466**	**7,767**	**479**	**8,246**
Mainline store reconfigurations	0	+ 14	- 4	+ 10
Mainline closures	- 12	- 181	- 4	- 185
Clearance stores	+ 4	+ 34	+ 0	+ 34
January 2024	**458**	**7,634**	**471**	**8,105**
Change	- 8	- 133	- 8	- 141
Change %	- 1.7%	- 1.7%	- 1.7%	- 1.7%

Whilst we will continue to open and close a small number of stores, we do not anticipate any material net change in our Retail selling space in the year ahead.

NEXT, Fosse Park, Leicester

NEXT ONLINE

HEADLINES

- Full price sales up +6.0% versus last year
- Total sales (including markdown sales) up +5.1%
- Online profit (including lease interest costs) was £506m, up +10.8%
- Net margin 16.0%, up +0.8%

SUMMARY OF ONLINE SALES, PROFIT AND MARGIN

The table below summarises total sales and profit for our Online business, which includes NEXT brand UK, LABEL UK and Overseas.

Please note that, consistent with the reporting of Retail margins, we include the cost of lease interest within Online profitability. Lease interest was up +7.2% due to the lease for our new Elmsall 3 warehouse.

£m	Jan 2024	Jan 2023	Var %
Total sales	3,160	3,007	+5.1%
Operating profit	517	467	+10.7%
Lease interest charge	(11)	(10)	+7.2%
Online profit including lease interest	**506**	**457**	**+10.8%**
Online margin including lease interest	16.0%	15.2%	

CONTENTS OF THIS SECTION

This part of the document includes the following sections:

- **Online sales** analysis (page 39)
- **Online customer** analysis (page 40)
- **Online net margin** analysis (page 41)
- **Online Overseas** (page 43)
- **Online LABEL UK** (page 45)
- **Focus on wholly-owned brands & licences** (page 47)

ONLINE SALES ANALYSIS

The table below sets out the different categories of Online's sales for the full year. Further commentary for Online's sales performance is given below the table.

Sales category £m	Jan 2024	Jan 2023	Var %
Full price sales	2,840	2,679	+6%
Clearance[30] sales	99	76	+31%
Total full margin sales	**2,939**	**2,755**	**+7%**
Sale events in-season	221	252	- 12%
Total Online sales	**3,160**	**3,007**	**+5%**

Full price sales by division

Full price sales £m	Jan 2024	Jan 2023	Var %
NEXT Brand UK	1,265	1,221	+4%
LABEL UK	885	869	+2%
Total UK Online	***2,149***	***2,090***	***+3%***
Overseas (nextdirect.com)	499	463	+8%
Overseas aggregators	191	126	+52%
Total Overseas	**691**	**589**	**+17%**
Total Online full price sales	**2,840**	**2,679**	**+6%**

LABEL full price sales were up +2%; with growth in the year adversely affected by the fact that we discontinued a number of unprofitable brands and items.

Overseas full price sales were up +17%, with the biggest area of growth coming from third-party aggregators which were up +52%.

Clearance sales

Clearance sales grew by +31%, which was driven by an unusually high amount of Clearance stock being available online during the first half of the year (up +68% on the prior year). This increase was due to the combination of: (1) having a large Sale at the end of 2022/23; and (2) capacity constraints in our warehouses in the prior year. As a result, Clearance sales were up +81% in the first half but normalised in H2 where they were flat on the prior year.

Sale events

Surplus stock levels during the year were down -14% and clearance rates were broadly flat on last year. Sales from Online sale events were down -12%, which was better than the -14% reduction in surplus, due to the timing of when Sale orders were dispatched to customers.

[30] Clearance stock is the unsold Sale stock from previous seasons, which has been written down in value and is carried over to the following season, where it is then sold at a full margin.

ONLINE CUSTOMER ANALYSIS

Growth in Customer Numbers and Average Spend Per Customer

Customers can be split into three distinct groups:

- **UK credit customers** who pay through a NEXT credit account[31] (next**pay** or next**3step**).
- **UK cash customers** who pay using credit, debit or other tender types.
- **Overseas** customers who shop on our international websites.

The average number of active[32] Online customers in the last twelve months was 8.4m, up +4% versus last year. The table below shows the change in average customer numbers, sales per customer and their total sales value, versus last year. For completeness, the table also includes sales achieved through our third-party aggregators overseas, where we do not have visibility of customer numbers.

	AVERAGE CUSTOMERS		**SALES PER CUSTOMER**		**TOTAL SALES VALUE**	
Full year	**Jan 2024**	**vs Jan 2023**	**Jan 2024**	**vs Jan 2023**	**Jan 2024**	**vs Jan 2023**
UK Credit	2.9m	+1%	£565	- 2%	£1,620m	- 1%
UK Cash	3.9m	+7%	£210	+1%	£809m	+9%
UK Total	**6.7m**	**+5%**	**£361**	**- 3%**	**£2,429m**	**+2%**
Overseas (direct to consumer)	1.7m	0%	£310	+9%	£528m	+9%
Total ex. aggregators	**8.4m**	**+4%**	**£351**	**- 1%**	**£2,957m**	**+3%**
Third-party aggregators					£203m	+46%
Total					**£3,160m**	**+5%**

Sales Per Customer

UK sales per customer

In the UK, sales per **credit customer** were down -2% versus the prior year. We believe this has been driven by the reduction in surplus stock in our end-of-season Sale events, which have a high participation of credit customers. Sales per **cash customer** increased by +1%.

The growth in cash customers, who on average spend less than credit customers, means that the overall average spend for UK customers was down -3%.

Overseas sales per customer

Overseas sales per customer increased by +3% in local currency, which translated into a +9% increase in Pounds Sterling.

[31] Both NEXT credit offers are authorised and regulated by the FCA.

[32] Active customers are defined as those who have either placed an order or received an account statement in the last 20 weeks.

ONLINE NET MARGIN

Online Margin Analysis

Overall Online net margin was 16.0%, up +0.8% on last year. The margin impact of major cost categories is summarised below.

Net margin (after lease interest) on total sales to January 2023		**15.2%**
Bought-in gross margin	Bought-in margin improved due to Overseas margin improvements (+0.5%) and lower freight costs (+0.3%).	+0.8%
Markdown	Surplus stock was down -14% versus last year, improving margin.	+1.3%
Warehousing & distribution	Margin improved for the following reasons: ● Operational efficiencies from higher average selling prices and productivity improvements (+1.2%) ● Lower international parcel rates (+0.4%); offset by ● Inflationary cost increases (wages and fuel) (-0.8%) ● Higher overheads costs, mainly from our new boxed warehouse Elmsall 3 (-0.3%).	+0.5%
Marketing	Digital marketing spend in both the UK and Overseas grew faster than sales.	- 0.4%
Technology[33]	Increased spend in technology (software development and maintenance) along with higher depreciation, reduced margin.	- 0.1%
Central costs and staff incentives	Higher staff incentive costs[34] and investment in head office teams to support new business initiatives within our LABEL and Overseas businesses.	- 1.3%
Net margin (after lease interest) on total sales to January 2024		**16.0%**

[33] Technology includes the recovery of R&D tax credits on qualifying spend.

[34] Last year, our Online business missed its profit target, therefore did not take any of the bonus charge. This year, Online has performed ahead of our expectations therefore has taken a proportion of the bonus.

Net Margin by Online Division

Online division	Total sales £m	Profit £m	Margin %	Change in margin vs Jan 2023
NEXT brand UK	1,408	281	19.9%	+0.0%
LABEL UK	1,021	130	12.8%	- 0.1%
Overseas	731	95	13.0%	+4.4%
Total Online	**3,160**	**506**	**16.0%**	+0.8%

NEXT UK

Whilst NEXT UK's margin of 19.9% was in line with the prior year, there have been several movements in the cost base as summarised below.

- Margin improved due to: lower freight rates (+0.4%), lower levels of surplus stock (+1.5%) and operational efficiencies within logistics (+1.6%).
- These margin benefits were offset by:
  - Wage inflation across all areas (-1.4%)
  - Additional spend in marketing (-0.5%) and technology (-0.2%)
  - Higher occupancy costs from our new boxed warehouse (-0.3%)
  - Higher central costs, including staff incentives (-1.1%).

LABEL UK

LABEL experienced the same inflationary cost increases as NEXT UK, but these costs were offset by: (1) lower levels of surplus stock than last year, along with higher clearance rates, (2) higher commission rates being charged on products that previously made low margins and (3) the removal of unprofitable brands/items from our product offer. Further detail of LABEL's profitability is given on page 46.

Overseas

Overseas net margin of 13.0% was 4.4% ahead of last year's margin of 8.6%. Overseas also experienced the same inflationary costs as NEXT UK, but these costs were more than offset by: (1) price increases (2) removing unprofitable items from our Overseas websites and third-party aggregators, and (3) renegotiating our parcel rates. Further detail of Overseas profitability is given on page 43.

Guidance for Online Sales and Margin for the Year Ahead

In the year ahead we are forecasting for Online's full price sales to grow by +5% and for net margins to be 15.4%. The forecast reduction in margin against the prior year is mainly due to wage inflation.

ONLINE OVERSEAS

Overview

We have continued to make excellent progress in our Overseas business, with strong sales growth and improved net margins. Sales grew by +17% (+14.5% in constant currency) and net margin improved from 8.6% last year to 13.0%. The table below sets out the headline performance for sales and profits. Full price sales are split between our own websites and third-party aggregators.

£m	Jan 2024	Jan 2023	Var %
Direct to consumer (our own websites)	499	463	+8%
Third-party aggregators	191	126	+52%
Total full price sales	**691**	**589**	**+17%**
Markdown sales	41	36	+14%
Total sales (including markdown)	**731**	**625**	**+17%**
Operating profit	**95**	**54**	**+77%**
Net margin %	*13.0%*	*8.6%*	

What's changed?

As explained in the Big Picture (page 13), sales and margins have grown through a combination of:

- The development and improvement of our relationship with overseas **third-party aggregators.**
- The removal of **unprofitable products** from our overseas offer. This meant removing items with a low selling price and high returns rate, as these cannot justify the high logistics costs associated with shipping stock overseas.
- Increased online **marketing,** funded through price increases.

Investment in overseas marketing

We increased marketing spend as a percentage of total sales[35] from 4.0% to 4.7%. To assess the performance of our marketing, we calculate the net present value (NPV) of cash returned for each £1 of marketing spend. Last year the NPV rose from £2.07 to £2.30 for each £1 spent. It is important to stress that our returns are based on incremental profit and should not be confused with the industry practice of using so-called ROAS (return on advertising spend) which often looks at orders generated without adjusting for cannibalisation or profitability.

The table below shows the total spend on marketing for the last two years and our estimate for the year ahead. If opportunities arise to increase our spend, while maintaining profitability thresholds, we will take advantage of them.

Overseas marketing £m	Jan 2023	Jan 2024	Jan 2025 (e)
Social	10.0	12.3	11.5
Search	5.9	9.4	13.8
Display	0.7	0.5	0.7
Digital marketing spend	**16.6**	**22.2**	**26.0**
Non-digital spend, and marketing teams	2.8	2.7	2.7
Total marketing spend	**19.4**	**24.8**	**28.7**
Versus prior year		*+28%*	+16%

[35] Total sales on our own websites, including markdown sales. This excludes sales on third-party aggregator sites.

Overseas Margin

The table below sets out the profit margin achieved compared to last year and the main reasons for the increase.

Net margin (after lease interest) on Overseas sales to January 2023		**8.6%**
Bought-in gross margin	Bought-in margin improved due to price increases (in sterling) (+2.5%) and lower freight costs (+0.3%). These benefits were partially offset by the higher participation of sales in countries that incur duty charges (-0.2%) and a prior year one-off FX revaluation credit (-0.3%).	+2.3%
Markdown	Lower surplus improved margin	+0.8%
Warehouse & distribution	Margin improved for the following reasons: ● Higher average selling prices & operational efficiencies +2.0%. ● Parcel rate reductions +1.4% ● Inflationary cost increases (wages and fuel) -0.3% ● Middle East hub set up costs -0.2%	+2.9%
Marketing	Marketing costs increase by more than sales.	- 0.3%
Central costs and staff incentives	Higher staff incentives than last year, due to the over-achievement of profit against budget.	-1.3%
Net margin (after lease interest) on Overseas sales to January 2024		**13.0%**

ONLINE LABEL UK

Overview

In this section we discuss LABEL, which sells third-party brands through the NEXT website. For clarity, all sales figures reported in this section are given at their gross transaction value, including commission-based sales.

LABEL Online sales (including full price and markdown sales) were £1,021m, up +1.6% on last year. LABEL margins of 12.8% were down -0.1% against last year, as improved bought-in margins and reduced surplus stock largely compensated for the inflationary pressures seen across the Online business. Further details on LABEL margins are given on the following page.

Full Price Sales Analysis

This section shows the full price sales performance of the four different LABEL business models. Each of these models has different characteristics in terms of (1) who is responsible for design, (2) who sources and manufactures the product and (3) who takes the stock risk. These are summarised in the table below in descending order of third-party involvement.

Business model	Design	Sourcing	Stock risk	Examples
3rd party Brands sold on **Commission**	3rd Party	3rd Party	3rd Party	*River Island, White Stuff, Mint Velvet*
3rd party Brands sold on **Wholesale**	3rd Party	3rd Party	**NEXT Group**	*Nike, Adidas, Superdry*
Licensing	3rd Party	**NEXT Group**	**NEXT Group**	*Clarks Schoolwear, Reebok, Laura Ashley*
Wholly-owned brands	**NEXT Group**	**NEXT Group**	**NEXT Group**	*Lipsy, Love & Roses, Friends Like These*

Total full price sales were up +2% against last year. The -1% decline in third-party brands was as a result of eliminating loss making products; this loss was more than offset by the gains we made through wholly-owned brands and licensing.

Full price sales category £m	Jan 2024	Jan 2023	Var %
Third-party brands (commission)	411	409	+0%
Third-party brands (wholesale)	302	311	- 3%
Total third-party brands	**713**	**720**	**- 1%**
Wholly-owned brands and licensing	171	149	+15%
Total LABEL full price sales	**885**	**869**	**+2%**

LABEL Margin Analysis

Overall LABEL margin of 12.8% was down -0.1% versus last year. The margin impact of major cost categories is summarised below.

Margin walk forward

Net margin (after lease interest) on LABEL sales to January 2023		**12.9%**
Bought-in gross margin	Margin improved due to higher commission rates on low margin product ranges (+0.3%) and the growth in sales of our higher margin wholly-owned brands (+0.1%).	+0.4%
Markdown	Surplus stock levels were down -18% versus last year, and clearance rates were up +3%.	+1.0%
Warehouse & distribution	Inflationary cost increases reduced margin.	- 0.3%
Marketing & photography	Digital marketing and photography costs grew faster than sales.	- 0.2%
Technology	Increased spend in technology (software development and maintenance) along with higher depreciation, reduced margin.	- 0.2%
Staff incentives & central costs	Higher staff incentive costs and investment in product teams to support future growth in wholly-owned brands and licensing.	- 0.8%
Net margin (after lease interest) on LABEL sales to January 2024		**12.8%**

Margin by business model

While LABEL's overall margin was broadly in line with the prior year, there were different margin movements across our different business models, as summarised below.

Margin by category	**Jan 2024**	**Jan 2023**
Third-party brands (commission)	10.6%	10.9%
Third-party brands (wholesale)	15.1%	14.4%
Total third-party brands	**12.5%**	**12.4%**
Wholly-owned brands	14.7%	15.7%
Licensing	12.0%	14.9%
Total LABEL margin	**12.8%**	**12.9%**

Third-party commission brands' margin of 10.6% was down -0.3% versus last year. We increased commission rates on low margin brands, which improved margin by +0.7%. However, this was more than offset by inflationary cost increases (wages and fuel), increasing our product teams, increased marketing activity and technology costs.

Third-party wholesale brands' margin of 15.1% increased +0.7% versus last year, largely due to lower surplus stock and higher clearance rates, which more than offset cost increases.

Wholly-owned brands' margin of 14.7% was down -1.0% versus last year. This was due to inflationary cost increases experienced throughout the Online business and higher surplus stock.

Licensing margin of 12.0% reduced by -2.9% due to investment in our product teams to support future growth and other set up costs.

FOCUS ON WHOLLY-OWNED BRANDS & LICENCES

Most of our non-NEXT branded products (wholly-owned brands, licensed brands and wholly-owned licences like MADE and Cath Kidston) are sold through LABEL in the UK and are included in the sales figures given for LABEL; but we also sell them through Online Overseas, Retail stores and wholesale. The full price sales figures shown below include *all* of the revenue streams sold throughout the Group.

WHOLLY-OWNED BRANDS

Full price sales in our wholly-owned brands grew by £33m to **£166m (+25%)** (£132m was sold through LABEL UK and the balance of £34m sold in Online Overseas, Retail and wholesale). Full price sales by brand are set out below.

Wholly-owned brands £m	Jan 2024	Jan 2023	Var %
Lipsy	90	101	- 10%
Love & Roses	44	16	+181%
Friends Like These	33	17	+90%
Total wholly-owned brands' full price sales	**166**	**133**	**+25%**

Love & Roses and **Friends Like These** are in-house brands developed by our Lipsy team. Love & Roses focus on garments with bold colour combinations and beautiful prints, with a focus on detail and trims in quality fabrics for both occasionwear and daywear. Friends Like These offer a feminine and fashionable clothing and footwear range, at affordable prices. Both brands have become more established and have seen significant growth in the year. Of course, this growth will not be fully incremental to the Group and will have come at the expense of lost sales from other product ranges and brands, including NEXT. Lipsy's sales were down -10% on last year; we believe that last year's sales were exceptionally good and boosted by a return to shopping for dresses and occasionwear post-COVID.

LICENCES

The opportunity

Over the last few years, we have been able to leverage NEXT's product skills - sourcing, technical design, quality assurance, buying and merchandising - to deliver specialist product ranges for third-party brands. For example, children's clothes for smAllsaints; combining AllSaint's unique handwriting with our ability to develop and deliver the product. The following table shows some of the brands we are working with under licence agreements.

	Childrenswear	Home	Accessories and other
Existing	Little Bird By Jools Oliver	Laura Ashley, Lucy Tiffney	Bath & Body Works
New during 2023/24	Clarks, Reebok, Paul Smith	MADE, Jasper Conran, Nina Campbell, Cath Kidston	Preen, Lucy Tiffney
New agreements	Superdry, smAllsaints	Clarke & Clarke, French Connection, Rockett St George	Rockett St George, Cath Kidston

Under our licensing agreements, a third-party brand (the licensor) supplies NEXT (the licensee) with design inspiration and branding. NEXT sources and purchases the stock, which is held at our risk and the licensor earns a royalty on sales. We also collaborate with third-parties who provide prints that we use on products that are designed by NEXT and we include these sales in the analysis below.