next plc

Results for the Year Ending January 2020

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Contacts: Lord Wolfson, Chief Executive
Amanda James, Group Finance Director *(analyst calls)*
NEXT PLC **Tel: 0333 777 8888**

Alistair Mackinnon-Musson Email: next@rowbellpr.com
Rowbell PR **Tel: 020 7717 5239**

Photographs: http://www.nextplc.co.uk/media/image-gallery/campaign-images

FINANCIAL HEADLINES

NEXT Brand full price sales[1] were up **+4.0%** and Brand total sales[2] (including markdown sales) were up **+3.5%** on last year. Group profit before tax was up **+0.8%** and Earnings Per Share (EPS) were up **+5.6%** on last year**.** Group profit of £728.5m was just ahead of the guidance of £727m given in our January 2020 Trading Statement due to better than expected full price sales in January.

TOTAL SALES £m	**Jan 2020**	**Jan 2019**	
Online	2,146.6	1,918.8	+11.9%
Retail	1,851.9	1,955.1	- 5.3%
Finance	268.7	250.3	+7.3%
Brand	**4,267.2**	**4,124.2**	**+3.5%**
Other[3]	94.6	96.7	
Total Group sales	**4,361.8**	**4,220.9**	**+3.3%**

PROFIT £m and EPS (excluding IFRS 16)	**Jan 2020**	**Jan 2019**	
Online	399.6	352.6	+13.3%
Retail	163.9	212.3	- 22.8%
Finance (after funding costs)[4]	146.7	127.3	+15.3%
Brand	**710.2**	**692.2**	**+2.6%**
Other[5]	25.6	35.8	
Recharge of interest to Finance[4]	36.3	34.0	
Operating profit	772.1	762.0	+1.3%
Net external interest	(43.6)	(39.1)	
Profit before tax	**728.5**	**722.9**	**+0.8%**
Taxation	(134.6)	(132.5)	
Profit after tax	**593.9**	**590.4**	
Earnings Per Share	**459.8p**	**435.3p**	**+5.6%**

Statutory sales were up +2.4% and profit before tax, including the effect of IFRS 16, was up +2.0%.

STATUTORY BASIS £m and EPS	**Jan 2020**	**Jan 2019**	
Sales	4,266.2	4,167.4	+2.4%
Profit before tax	748.5	733.6	+2.0%
Profit after tax	610.2	599.1	+1.9%
Earnings Per Share	472.4p	441.7p	+7.0%

The financial information in pages 4 to 48 do not reflect the impact of IFRS 16, Leases. The impact of IFRS 16 is provided in Appendix 1 on page 49 and Note 13 of the financial statements.

[1] Full price sales are VAT exclusive sales, excluding items sold in our mid-season, end-of-season Sale events and our Clearance operations. These are not statutory sales (refer to Note 2 of the financial statements).

[2] Total sales are VAT exclusive sales including the full value of commission based sales (refer to Note 2 of the financial statements).

[3] Other sales include NEXT Sourcing external sales, Franchise, Lipsy non-NEXT sales and external Property income.

[4] Finance profit for January 2019 has been restated to reflect a change in the calculation of funding costs. See page 31.

[5] Other profit includes NEXT Sourcing, Franchise, Lipsy and Property management.

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CHIEF EXECUTIVE'S REVIEW - OVERVIEW

CORONAVIRUS - SUMMARY OF IMPACT ASSESSMENT

As might be expected, we begin with a summary of the risks that coronavirus poses to the business and the actions we are taking to weather the storm. When the pandemic first appeared in China, we assumed that the threat was to our supply chain. It is now very clear that the risk to demand is by far the greatest challenge we face and we need to prepare for a significant downturn in sales for the duration of the pandemic.

Levels of uncertainty

We have no experience of a similar crisis so there is no way of predicting the extent that the effect coronavirus will have on our Retail and Online sales. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of this pandemic will be on consumer behaviour.

What we can say

The evidence we have from sales to date in the UK and from our (small) international websites in the worst affected countries is that:

- Demand will be the biggest issue and although the virus is likely to impact our operations, we do not believe this will be as damaging as the very significant drop in sales sustained both in Retail and Online.
- Online sales are likely to fare better than Retail but will also suffer significant losses. People do not buy a new outfit to stay at home. There is some evidence from our overseas sites that as restrictions on movement increase, the difference between Online and Retail sales performance widens, with Online picking up a small amount of the business that cannot be carried out in store.
- Some product areas are likely to fare better than others. To date, our homeware and childrenswear sales appear to be less affected than our adult clothing lines.

Priority

Our priority is to do all we can to keep our workplaces and shops as safe as possible for customers and staff. At the same time we must prepare the business for varying levels of sales declines. To that end we have modelled the effects of differing levels of sales declines along with all the measures we can take to ensure that the Company remains within its bond and bank facilities.

Coronavirus stress test

In our Outlook section (page 37) we have included a detailed stress test that gives the likely cash and profit impact for different levels of sales decline. The scenarios model full price sales losses of £445m, £820m and £1bn respectively. These declines represent -10%, -20% and -25% of our *annual turnover.*

Measures we can take to conserve cash

The stress test details various measures we could take to control costs and conserve cash within the business, given differing levels of sales decline. These potential measures include the suspension of our buyback programme, the delay of discretionary capital expenditure, the sale and leaseback of a warehouse, the part securitisation of customer receivables, the redemption of a loan to our Employee Share Ownership Trust (ESOT) and if necessary, the deferral of our August dividend. Beyond that we, of course, have the option to suspend rather than delay dividends.

More detail is given as to how and when we would trigger these actions on page 44. We should stress that we currently believe it is unlikely that we will need to pull all these levers, but we will ensure that we have the flexibility to take all measures if the need arises.

Combined, actions to conserve cash could retain within the business an additional +£835m of cash. These actions would mean that should the Company lose -20% of annual full price sales we would still have £835m headroom within our current bank and bond facilities at the end of the year. (See page 44).

Conclusion of stress test

The conclusion of our stress test is that the business could comfortably sustain the loss of more than £1bn (25%) of annual full price sales, without exceeding our current bond and bank facilities. This accounts for the business rates holiday announced by Government but *excludes* any use of Government lending or any measures that may be introduced to help with wages during closure.

Working through the crisis

There will be many challenges to our working practices as the pandemic develops and we are putting plans in place to protect our most vulnerable employees, comply with differing levels of Government restrictions and cope with illness throughout the business. In particular, we are adapting our technology for greater home working and seeking to segregate critical operational teams so as to keep all our vital operations and projects on track.

Sourcing and developing new and exciting product ranges for the back end of the year remains vitally important. This will be a particular challenge because it normally involves a great deal of international travel. Our product teams travel to factories to develop new items and to overseas retail markets for inspiration. Such travel is likely to be impossible as the pandemic progresses. We are putting in place measures to compensate for a lack of face to face contact - video conferencing, online inspiration "trips" and more.

CORONAVIRUS IN PERSPECTIVE

The continuing imperative - the mission to evolve

This report begins by discussing the real and immediate threat of coronavirus. It would be easy for us to talk or think of nothing else, but that would be a mistake. Our sector continues to experience profound and lasting structural changes and these changes are not on hold. Indeed it is possible that the pandemic may accelerate the transition to online shopping. So we cannot afford to neglect our continuing efforts to transform every part of our business.

This process of learning new ways to serve our customers, collaborate with partners and create value for our shareholders is a task that involves every function in our business. Our buying, sourcing, systems, marketing, warehouse, distribution and store teams are all having to re-invent what we do to adapt to a rapidly changing world.

It is the delivery of new product ranges, web systems, fulfilment methods, marketing techniques, warehouse capacity, business ideas, partnerships and more that will determine our longer term destiny. That requires a culture that embraces change and is not afraid to take risks - no mean feat in a crisis.

The pandemic will end!

One thing we can be sure of, at some point the pandemic will pass and when the dust settles it will be the work we have put into (1) securing the cash resources of the business and (2) moving the business forward that will make the difference to the long term future of the Company.

BEYOND THE VIRUS - THE BIG PICTURE

The following paragraphs summarise our view of how and why people have been changing their shopping habits over the last five years and how we are responding to the long term challenges and opportunities those changes present.

The power of choice and the prospect of the high street stabilising

The internet continues to give consumers unprecedented levels of choice without requiring them to travel to physical stores. The ability of retailers to hold stock in single central locations for nationwide (and worldwide) distribution means that customers can now access products everywhere that they could previously only find in a handful of major shopping locations.

We believe that it is this proliferation of *choice* that is the most important advantage that the internet brings to the consumer. Of course, the ability to deliver goods to a customer's home plays an important part in the service Online provides. But nearly fifty percent of our orders (by volume) are delivered to our stores. So for many people the overriding factor is choice, not the convenience of home delivery.

If online trading were only about home delivery, we might reasonably expect high street sales to stabilise and the split between Online and stores to reach a point of equilibrium relatively soon. But if the driver of change is choice then, in our view, that equilibrium is likely to be a long way off and we are preparing ourselves for many years of transition**.**

The challenge posed by lower barriers to entry

In the same way that the internet has allowed customers to access far more brands, it has also allowed brands to access far more customers. The internet has dramatically lowered the barriers to entering the retail market, allowing small, niche and new businesses to reach millions of consumers without the need to invest in a network of expensive retail shops and all their supporting infrastructure. This is particularly true if they take advantage of trading on aggregation sites like NEXT.

This is all good news for the consumer and so, in the long run, should be good for our industry; but for an established retailer, with a relatively large UK market share, heavily invested in physical retail assets, this change poses a significant and ongoing challenge.

Competing with ourselves

The risk for NEXT is that our customers find new ways to buy competing brands whilst we remain burdened with expensive retail liabilities (rents, rates, wages etc.). Our response has been to lean into this challenge and actively enable our competitors to reach more customers by selling their product on our Online Platform through LABEL.

We have little doubt that the presence of competing brands increases the competition for our own (higher margin) NEXT branded products, but we believe that longer term it is the only way to survive in the online world. There is nowhere to hide on the internet, one way or another our customers will find the brands they want. If they can find what they want on our website they are more likely to come back to us, furthering our ambition to be our customers' first choice for clothing and homeware online.

Overseas opportunities

Overseas, the internet also presents us with an unprecedented opportunity to leverage our Online assets and profitably develop our brand in territories where *we* are the new contender. For the first time we have found a way to profitably reach customers who, in any one town or city, are insufficient in number to justify the investment in a retail store. The internet allows access to a large number of dispersed populations in a way that stores never could.

Direction of travel

The speed of change is difficult to predict, but the direction of travel remains the same. Nothing has happened in the last year to change our view that the combination of choice, convenience and speed remains the driving force behind the evolution of the UK clothing and homeware market.

At the heart of our business is our NEXT Brand product and our Online Platform — the combination of our products, third-party brands, warehouses, distribution networks, website, customer base, credit facility, marketing systems and stores. In the year ahead we will continue to improve and develop our Platform and our Brand.

FOCUS FOR THE YEAR AHEAD

Over and above managing the business through the pandemic we must ensure that we continue to develop the business: its product ranges, operations and online systems.

Much of this work will revolve around the development of NEXT's Online Platform and its ability to cope with increasing volumes and breadth of offer. The table below sets out some of our priorities by business area.

Warehousing	Laying the foundations for future growth in volume and breadth of offer through investment in additional **capacity**, improved **systems** and **automation**. The focus will be on systems that consolidate items, quickly and accurately, into individual parcels; a task which becomes harder as the breadth of offer grows. The development of **next-day Platform Plus**, enabling the delivery of items held in third-party warehouses to customers on a 24 hour promise.
Website	The development of an **onsite marketing** system to target products and brands to the customers most likely to want those items. This system will link with our email and social marketing systems. The improvement of website **speed** and performance. A two-and-a-half year project to modernise the software that supports our website. This project will enhance **resilience** and dramatically improve our ability to develop new website functionality. The development of our first **Total Platform** bespoke website for a third-party partner (see page 23).
LABEL	The continued addition of **new brands** to our site along with the expansion of ranges from our existing client brands. The extension of our 'Platform Plus' service to additional clients, allowing customers to order products held in third-party warehouses for delivery within 48 hours. The development and expansion of our **licensing** business.
Overseas	The **extension of ranges** available on our overseas sites including LABEL brands. Increased investment in and improvement to our overseas **digital marketing** (subject to the extent coronavirus interferes with sales). The addition of in-house and third-party **split payment** methods for overseas customers.
Stores	The continued development of work done in stores for our Online business with particular focus on the instore "fold and pack" returns processing. Mitigation of stores' costs through the renegotiation of **rents** (as and when leases come up for renewal) along with the addition of new **concession** opportunities. Improvement to working-hours rota systems to further improve **productivity**.

NEXT ONLINE

ONLINE SALES AND PROFIT

The NEXT Online Platform delivered strong and profitable growth. Full price sales were up +11.9% and profits were up +13% on last year. Net margin of 18.6% was up +0.2% on last year (page 11).

Full Price Sales by Division

Online full price sales grew by +11.9%, with total sales growth (including markdown sales) also up +11.9%. The table below breaks down *full price* sales growth by division.

Full price sales £m	**Jan 2020**	**Jan 2019**	**Var %**	**Var £m**
NEXT Brand UK	1,022	981	+4.2%	+41
LABEL UK	434	356	+21.9%	+78
Total UK Online	***1,456***	***1,337***	***+8.9%***	***+119***
Overseas	436	354	+23.3%	+82
Total Online full price sales	**1,892**	**1,691**	**+11.9%**	**+201**

Improved Stock Availability

We believe Online's sales performance was helped by improved stock availability, achieved through the faster processing of customer returns. As explained in our Half Year Report, we have taken a number of actions to bring items returned to our stores back to our warehouses faster, in order to make them available for resale sooner. This has been achieved by:

1. Increasing the number of delivery vans visiting our Retail stores each day, allowing daily collection of Online returns.
2. Reorganising store staff shift patterns to align them with new delivery schedules and trading patterns.
3. Introducing a simple fold-and-pack operation in stores, so that pristine stock can return to the warehouses "customer ready" and made available for re-order immediately.
4. Identifying at the point returns are being processed through the till, those items that are in highest demand and prioritising their processing.

We are seeing significant benefits from these activities. In the last six months, the average value of returned stock in transit between our stores and warehouse was down -30% compared with the previous year. On average, this meant £15m of additional stock (at full selling price) was available to our Online customers at any one time. During the peak trading weeks in the run up to Christmas, the value of additional stock available was £30m.

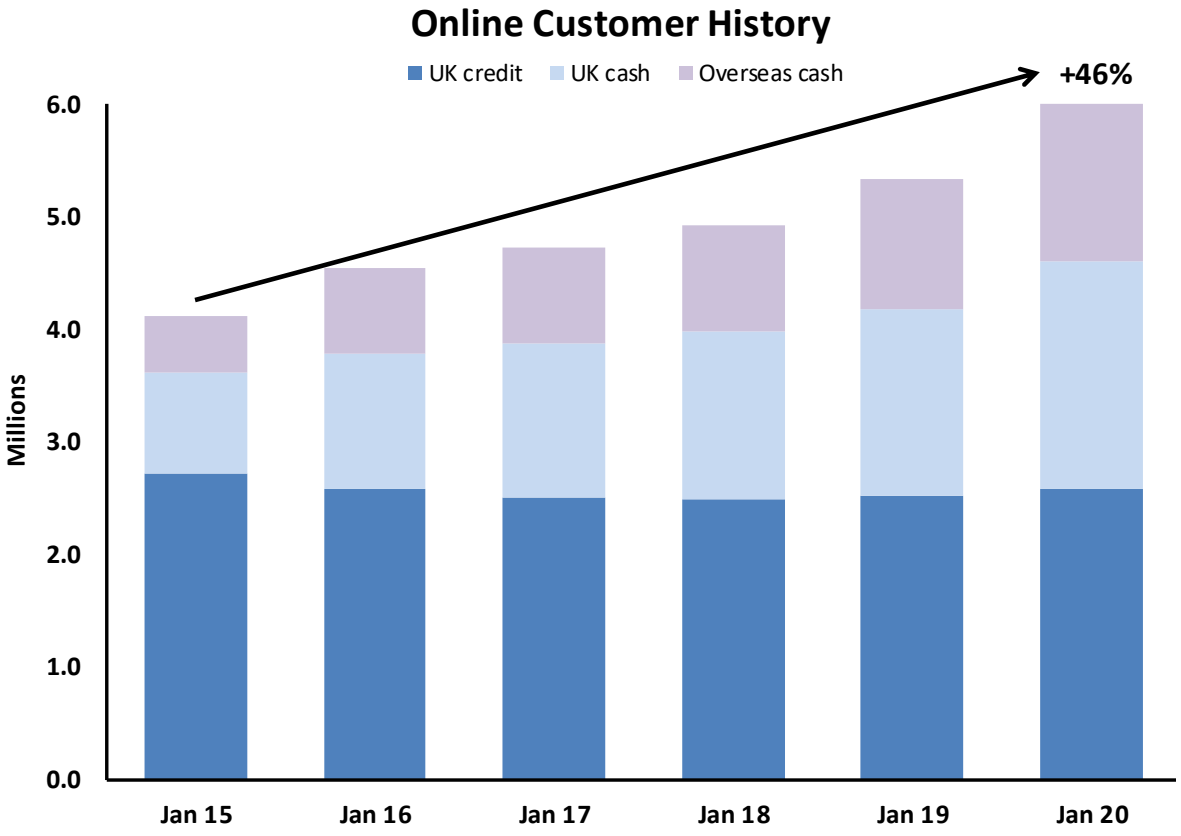
The most successful initiative has been fast tracking high demand items. High demand stock is now processed and available for resale within four days, which compares with 12 days in the previous year.

Customer Base

Average active customers[6] increased by +12.5% to 6 million, driven mainly by the growth in Overseas and UK cash customers. Cash customers are those who do not use our next**pay** credit account when ordering. The table below sets out the growth in the respective parts of our customer base.

For further detailed analysis of credit customer growth see pages 29 to 30.

Average active customers (m)	Jan 2020	Jan 2019	Var %
UK credit	2.58	2.52	+2.3%
UK cash	2.02	1.66	+21.4%
Total UK	**4.60**	**4.18**	**+9.9%**
Overseas cash	1.40	1.15	+22.1%
Total	**6.00**	**5.33**	**+12.5%**



[6] Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.

Profit by Division

Net margin by division is set out below, together with the change in net margins versus last year.

Online division	Profit £m	Variance £m	Jan 2020 Net margin %	Net margin % vs Jan 2019
NEXT Brand UK	247.6	+19.7	21.0%	+1.0%
LABEL UK	77.3	+11.1	15.2%	- 0.8%
Overseas	74.7	+16.2	16.4%	+0.3%
Total Online operating profit	**399.6**	**+47.0**	**18.6%**	**+0.2%**

NEXT Brand UK margin was up +1.0% mainly as a result of cost savings made in print and photography along with a small (+0.2%) improvement in bought-in gross margin.

Margin in the LABEL business was managed down to 15.2% mainly as a result of us lowering our headline commission rate on third-party brands. This reduction in bought-in gross margin was in furtherance of our ambition to be our partners' most profitable third-party route to market. Going forward, if we are able to operate more efficiently, we will aim to pass any savings back to our partners by way of further reductions in commission.

Margin Movement Analysis

The table below sets out significant Online margin movements by major heads of costs.

Net margin on total sales to January 2019		**18.4%**
Bought-in gross margin	Underlying margin on NEXT products improved by +0.2%, mainly due to achieving a better than expected Dollar exchange rate. An increase in the participation of third-party branded sales, which have a lower bought-in gross margin, reduced margin by -0.4%.	**- 0.2%**
Markdown	A higher participation of full price sales improved margin.	**+0.2%**
Warehousing & distribution	Growth in overseas sales, which have a higher cost of distribution, eroded margin by -0.3%. Wage inflation and other operational costs reduced margin by -0.3%.	**- 0.6%**
Catalogues & photography	Production of fewer catalogues and photography savings increased margin.	**+1.2%**
Marketing & systems	Investment in marketing and systems meant costs grew faster than sales.	**- 0.5%**
Central costs	Central costs did not grow in line with sales, improving margin.	**+0.1%**
Net margin on total sales to January 2020		**18.6%**

LABEL (UK)

LABEL sells third-party branded products through our Online Platform and is central to the continued growth of our Online business. Turnover in the year was £510m and net margin was 15%. Our aim is for the LABEL business to:

- become our customers' first choice destination for brands
- be our partners' most profitable third-party route to market
- offer a level of service and integrity that both NEXT and our partners are proud of

LABEL Sales and Profit

Total sales were up +23% and full price sales were up +22%. Profit in the year was £77m, an increase of +17% on last year. LABEL growth has been driven by:

- the introduction of new partner brands, including expansion of our Home and Branded Beauty offer (page 13)
- increasing sales with our existing partner brands, using our Platform Plus model (page 13)

LABEL Full Price Sales Analysis

LABEL full price sales have grown by £78m. This increase is shown below, split into product categories: Clothing, Home and Branded Beauty. In addition, the Brands can be divided into new, discontinued and continuous.

Continuous brands were up +10% with the remaining 12% of growth coming from the net increase from new brands and discontinued brands. Our new Branded Beauty business has grown by £12m, following our collaboration and subsequent acquisition of Fabled (see page 13), which substantially increased the breadth of our Branded Beauty offer.

Year on year sales £m	New	Discontinued	**Net new**	**Continuous**	**Total**
Clothing	+32	- 5	**+27**	**+33**	**+60**
Home	+6	- 1	**+5**	**+1**	**+6**
Branded Beauty	+11		**+11**	**+1**	**+12**
Full price sales versus last year	**+49**	**- 6**	**+43**	**+35**	**+78**
% var to last year's total full price sales			12%	10%	22%

Commission Versus Wholesale

More than half (56%) of our LABEL business is now on a commission basis and, although we make a lower net margin on a commission brand, we encourage our partners to adopt this model as we believe it helps drive sales growth. This is demonstrated by our full price sales performance (shown below), with commission sales growing by +32%, compared with wholesale which grew by +11%.

Full price sales £m	**Jan 2020**	**Jan 2019**	**Var %**
Wholesale	190.9	171.7	+11%
Commission	242.7	184.0	+32%
LABEL full price sales	**433.6**	**355.7**	**+22%**

Branded Beauty — Fabled by Marie Claire

In July 2019, our subsidiary Lipsy acquired Fabled by Marie Claire, a premium branded beauty business. This acquisition has allowed the Group to significantly increase the breadth and depth of beauty products sold through the NEXT Online Platform. Full price sales were £13m in the year contributing £2m of profit to the Group.

In the year ahead, we will add six more premium brands to the ranges available on NEXT's website. Fabled continues to operate on a standalone website (Fabled.com). 40% of the brands (by value) on the Fabled website are also available on the NEXT website and it is these products that drive the lion's share of our growth. In the year ahead, we expect more of the Fabled product to become available on the NEXT website.

Platform Plus

Platform Plus enables us to increase the breadth of our offer by giving our customers access to items stocked in our partners' warehouses. Stock falls into two categories: (1) products that are delivered by NEXT through our distribution networks, which can be consolidated in parcels with other stocked items and (2) products that are delivered by our partners directly to our customers, for example furniture or personalised items. In the year, we achieved sales of £32m with 87 brands. Before the prospect of coronavirus, we had expected full price sales in the year ahead of £48m.

	Jan 21 (e) No. of brands	**Jan 21 (e) £m annual sales**	**Jan 20 No. of brands**	**Jan 20 £m annual sales**
Delivered by NEXT	53	32	26	18
Delivered by brand	89	16	61	14
Total	**142**	**48**	**87**	**32**

We have also started to forecast sales of Platform Plus stock in the week ahead, so we can collect stock in anticipation of future orders. This allows us to improve order consolidation, minimising the number of parcels sent to a customer. This forecasting model is currently live with 11 brands and will be rolled out to at least 15 more over the coming year.

We estimate that Platform Plus has increased sales of our partner brands by +15% and we believe almost all of these sales were incremental to the brand.

ONLINE OVERSEAS

Overseas Sales and Profit

Our Overseas business has had another good year, with strong growth in both sales and profit. Full price sales were up +23% and total sales (including markdown sales) were up +26%. Profit was up +28% and we achieved a net margin of 16% after all central overheads.

The following sections provide details of full price sales, marketing and customer recruitment.

Full Price Sales by Geographical Region

The table below sets out full price sales growth by geographical region. Sales in all regions have grown, with the fastest growth in our largest regions of Europe and the Middle East.

Full price sales	No. of countries	% of full price sales	Jan 2020 £m	Jan 2020 vs Jan 2019
Middle East	14	45%	195	+34%
Europe (EU)	28	34%	150	+27%
Europe (Non-EU)	5	13%	55	+7%
Australia and New Zealand	2	6%	25	+1%
Rest of the World (ROW)	21	2%	11	+2%
Total full price sales	**70**	**100%**	**436**	**+23%**

Full Price Sales Growth by Channel

Full price sales through our Overseas website (nextdirect.com) grew consistently throughout the year at +24%. Like-for-like sales via third-parties were up +35%, and in the second half of the year we saw strong incremental growth from new partnerships covering nine countries. We ceased trading with two partners during the year.

Full price sales £m	Jan 2020	Jan 2019	Var %
Third-parties			
New	5.5	-	-
Continuous	32.5	24.1	+35%
Discontinued	-	9.0	- 100%
Total third-parties	38.0	33.1	+15%
nextdirect.com	398.3	320.8	+24%
Total Overseas full price sales	**436.3**	**353.9**	**+23%**

Increasing Choice Overseas

Over the past few years we have increased the choice of products offered on our Overseas website by extending the range to include some LABEL brands (400+). Take up was slow initially but we are now starting to see meaningful growth with LABEL brands up +68%. NEXT product full price sales grew by +20% in the year.

Product full price sales £m	**Jan 2020**	**Jan 2019**	**Var %**
NEXT	350.1	292.0	+20%
LABEL brands	48.2	28.8	+68%
nextdirect.com full price sales	**398.3**	**320.8**	**+24%**

Overseas Digital Marketing & Customer Growth

As our Overseas business continues to grow, we continually evaluate and invest in digital marketing to drive sales while maintaining profit margins. This year we increased our digital marketing spend by £5.6m (+112%). The table below sets out the spend by media channel.

Overseas marketing £m	**Jan 2020**	**Jan 2019**	**Var %**
Display	2.9	1.2	+142%
Search	3.4	1.9	+79%
Social	4.3	1.9	+126%
Digital marketing spend	**10.6**	**5.0**	**+112%**
Non-digital marketing	0.7	1.8	- 61%
Total marketing spend	**11.3**	**6.8**	

We continue to see a good return on our digital marketing investment. For every £1 spent directly on digital marketing, we expect £1.53 of cash to be generated from incremental orders placed within the first year. We will continue to invest in the areas where we see strong returns.

New Customers Recruitment Analysis

During the year, we recruited customers both organically and via digital marketing. The table below illustrates how important digital marketing is to customer acquisition. Over 55% of all new customers acquired during the year to January 2020 came via digital marketing.

New customers from previous 12 months ('000s)	**Jan 2020**	**Jan 2019**	**Var**	**Var %**
Via marketing	150	60	+90	+150%
Organic growth in countries with marketing	760	725	+35	+5%
Total growth in countries with marketing	**910**	**785**	**+125**	**+16%**
Organic growth in countries without marketing	285	250	+35	+14%
Total	**1,195**	**1,035**	**+160**	**+15%**

Sales Growth from New and Continuous Customers

Over the past 12 months, new customers spent on average +4% more than the previous year's recruits. Average spend by continuous customers was up +3%. We believe this increase was driven through marketing and increased choice.

Full price sales and customers for nextdirect.com	**Jan 2020**	**Jan 2019**	**Var %**
New customers	1,195k	1,035k	+15%
Average sales per new customer	£93	£89	+4%
New customer sales	£111m	£92m	+20%
Continuous customers	1,290k	1,055k	+22%
Average sales per continuous customer	£223	£217	+3%
Continuous customers sales	£287m	£229m	+26%
Total customers	**2,485k**	**2,090k**	**+19%**
Average sales per customer	**£160**	**£153**	**+4%**
Total full price sales	**£398m**	**£321m**	**+24%**

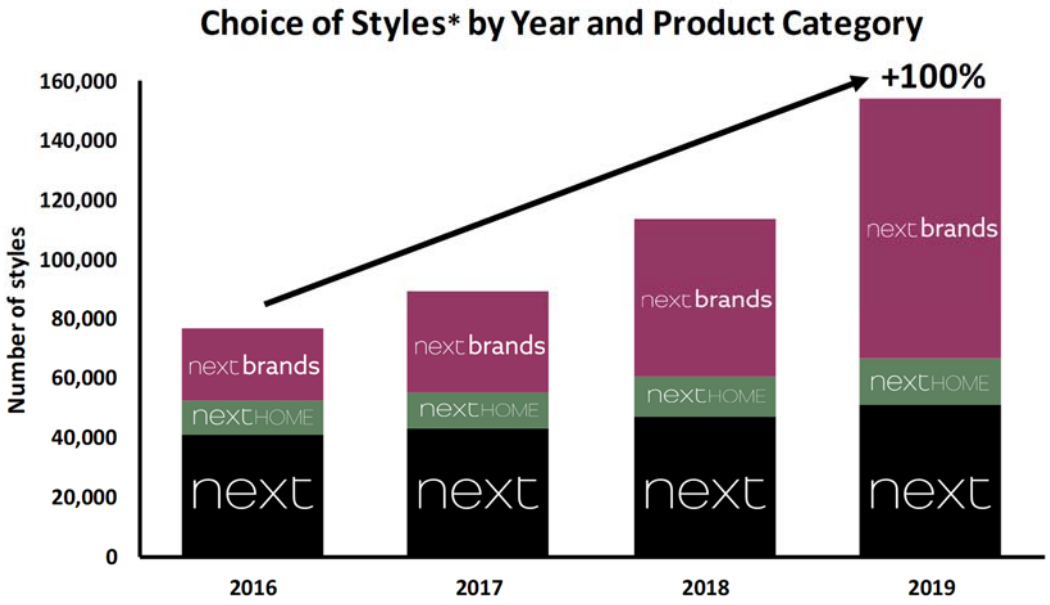
Payment Options

During the second half of the year we added an instalment based repayment option (AfterPay) into one country (Australia). Early results show an increase in the average net order value and we are looking to provide similar repayment options in more countries.

ONLINE WAREHOUSING

The continued growth of the Online business, and particularly the growth in the choice of unique items, has created ongoing challenges for warehouse infrastructure. Since 2016, the number of unique styles we offer on our website has increased by +100%.

These challenges relate to the efficiency of our space, machinery and people along with the fact that some areas are close to operating capacity. During the year we implemented a number of measures to alleviate these pressures through improved working practices and additional capital investment. We have plans in place for further investment and development in the coming years.



*Average number of distinct styles stocked in our warehouses at a point in time

Online Boxed Warehouse Growth

The activity in our Online boxed warehouse has changed dramatically. To put this in context, in 2000 Online occupied a third of our Retail boxed warehouse. Now, Online is operating to full capacity out of two standalone warehouses. The table below shows the significant change in daily activity in our Online boxed operations; we now pick 10 times more units each day, from an area that is five times larger. Our next-day delivery offer has extended by seven hours, meaning we have less time to pick more stock over a larger area!

Online boxed warehouse	2000	2020	Change
Units picked per day	50k	500k	**10 x**
Warehouse square footage	320k	1,700k	**5 x**
Order cut-off time for next-day delivery	5pm	12 midnight	**+ 7 hours**
Minimum time to pick	9 hours	2 hours	**- 80%**

The Challenges for Warehousing

As we grow our Online business the challenges become harder. These challenges can be categorised as cost, speed and accuracy:

- **Cost** — with more SKUs[7] spread over a larger area, our warehouse colleagues have to walk further, so picking costs are higher
- **Speed** — stock has further to travel to packing stations, so takes longer
- **Accuracy** — there is a greater risk of failing to get the right item to the right place on time

Parcel Economics

The costs of fulfilling an order can be broken down into warehouse item picking, parcel packing and parcel delivery. Of these, the cost of delivering parcels is by far the largest. For NEXT, delivery costs represent 68% of the fulfilment costs. Our deliveries are fulfilled by various third-party carriers and we are charged per parcel, rather than per item. If we have to put items into separate parcels, costs rise dramatically. So, the number of items consolidated into a single parcel is central to minimising costs.

Capital Discipline

The current book value of our warehouse and distribution plant and machinery assets is £182m and our annual depreciation charge is £22m, representing around 1% of Online sales. If we were to replace our current infrastructure with new, we estimate it would cost in the region of £750m which would equate to an annual depreciation charge of around £50m. So for NEXT, extending the life of existing equipment is often as important as developing new equipment.

Over the last ten years we have invested in a great deal of new warehouse capacity, systems and mechanisation; but the key to success has been our ability to integrate those investments with our existing operations in order to deliver the maximum benefit for the minimum capital investment.

All investments in our warehouses must either be justified on the basis of (1) the profit generated from the increased sales capacity they facilitate or (2), where they improve productivity, deliver an internal rate of return of more than 20%.

CAPACITY IMPROVEMENTS

The biggest strain on capacity has been in our boxed warehouses. The following sections cover some of the initiatives we are working on to increase capacity in both the short and long term.

2019 Improvements

In the short term we have had to work on a large number of small initiatives just to keep up with sales growth. These initiatives delivered the capacity required for sales growth and resulted in cost savings of around £1.5m. Some of these initiatives are summarised below.

Forward Locations

In the year we have carried out several small projects, including rewriting our picking software and reconfiguring our forward picking locations. These changes have increased the number of forward locations in our Online boxed warehouse by +25%. This has improved the availability of stock which can be picked for next-day delivery. In turn this has increased the average number of items packed in a parcel, which reduces the delivery cost per item.

[7] A SKU is defined as a unique style in a particular size.

Staff Training

In our previous report we explained that we have overhauled our recruitment and training programmes. Over the last six months we have expanded our training zones to benefit more staff and plan to increase the number of tasks trained this way. During this six month period we have experienced tangible operational benefits, with improvements in staff retention and productivity.

Returns Locations

We recently completed the installation of a new automated returns storage and retrieval system for Online boxed items. This was operational from February 2020. Although it is early days, we anticipate a reduction in picking costs of -30% compared to manual returns locations. When fully complete this will almost double the boxed returns capacity in our main Online warehouse. In addition, it will also serve as an overflow for forward locations.

Longer Term Capital Investment Programme

We are currently two years into a six year programme of increased warehouse and logistics capital expenditure. This includes the development of a new Online boxed warehouse which we expect to be operational in 2022. The spend is largely geared to increasing Online capacity and throughput. However, there are further benefits from improved automation in the form of improved accuracy, parcel consolidation and productivity.

In the next four years we expect to invest around £300m on warehouse capex, which will increase our Online annual sales capacity by £1.7bn. So as a rule of thumb, 18p of capital investment allows £1 of future annual sales capacity.

INCREASED INVESTMENT IN SYSTEMS

As we go into the year ahead, we will further increase investment in Online systems. The table below categorises Online systems revenue and capital costs by type of expenditure over the last two years and our projection for the year ahead.

Systems spend (revenue and capital) £m	Jan 19	Jan 20	Jan 21 (e)	Jan 21 (e) vs Jan 19
Marketing systems	10.6	12.2	15.0	+42%
Warehouse & distribution systems	4.4	6.5	8.0	+81%
Website Modernisation	0.2	2.4	5.0	-
Online Platform development	**15.2**	**21.1**	**28.0**	**+84%**
Software maintenance (e.g. security, storage)	21.8	24.2	24.4	+12%
Call centre and Head Office functions	13.8	17.7	17.8	+30%
Total Online systems costs	**50.8**	**63.0**	**70.2**	**+38%**
Online systems P&L charge	*49.0*	*58.4*	*62.7*	*+28%*
Online systems capital expenditure	*1.8*	*4.6*	*7.5*	*+328%*

Ten years ago, our website was relatively simple to code. Since then, the complexity of website coding has moved on dramatically. Search engines and web-based marketing tools have become more sophisticated. The volume of data and transactions has grown dramatically along with the challenges of keeping that data safe; payment methods have multiplied and become more secure and we have added over 50 international sites, many with their own language and tender types. As a result, managing the code that supports our website has become increasingly complex, unwieldy and expensive.

The interdependence of complex and piecemeal legacy code reduces performance, resilience and makes the development of new functionality increasingly challenging. We are addressing these issues by redeveloping our entire website in a Website Modernisation project. We expect this programme to improve the resilience and speed of our site. However, the biggest benefit will be the enhanced ability for us to improve and develop our website going forward.

In essence, the project compartmentalises the different functions within the website (e.g. header, footer, home page, search page, product page, checkout etc.), which will allow each of these areas to be developed and deployed independently of each other, without the risk of a change in one function destabilising other functions within our website. At the same time, Website Modernisation will serve to update and simplify our code base to quickly improve performance and resilience of our site.

The programme is modular and each function will be developed in turn and work alongside the legacy code of functions that have not yet been redeveloped. This approach means that we avoid the risks inherent in grand projects that seek to replace entire systems overnight in one 'big bang' changeover. We have already built the communication layer and our account management function. We aim to deploy our search function within the next few months.

We anticipate Website Modernisation will cost £12m over a period of two and a half years.

ONLINE MARKETING

We spent £63m on Online marketing, an increase of £13m (+26%) on the prior year. £44m of this expenditure relates to digital marketing, of which £33m was in the UK and £11m was Overseas. £19m was spent on marketing professionals and other online marketing activities such as site content management and translation, brand advertising campaigns, PR and market research.

The increase in Online marketing costs was more than offset by savings made from reducing the number of catalogues we print and savings made on the costs of photography. The table below gives a picture of how our marketing expenditure changed during the year.

Category £m	**Jan 2020**	**Jan 2019**	**Var %**
UK digital marketing	33	29	+14%
Overseas digital marketing	11	7	+64%
Total digital marketing	**44**	**36**	**+23%**
Personnel and other marketing costs	19	14	+33%
Total Online marketing	**63**	**50**	**+26%**
Catalogues and photography	67	85	- 21%
Total marketing	**130**	**135**	**- 3%**

We still produce printed publications every six weeks but send them to fewer customers as more choose to browse and shop Online only. We expect to make at least £10m of further savings in photography and catalogue costs in the year ahead.

DEVELOPING NEW BUSINESS

In the year ahead we aim to develop two new features of our Online platform: (1) licensing which leverages our ability to source specialist products such as childrenswear and swimwear and (2) Total Platform, which takes our service to third-party brands one step further. Each is discussed in turn below.

Licensing

In our Half Year Report we announced a licensing partnership with Ted Baker and this will launch Online and in ten stores in April 2020. The aim of this business is to enable us to combine our sourcing expertise with our partners' design skills. We now have licence agreements in place with four other brands in the following categories: childrenswear, swimwear, men's suits, men's formal shirts and some home textiles (cushions and curtains). We will continue to look for new opportunities to work in this way.

We are very clear that for our licensing business to be successful, items must genuinely reflect the handwriting and DNA of our partner brands. To that extent, their input into the design process is crucial. Our belief is, where the combination of our sourcing expertise and our partners' design skills produce something genuinely new and valuable for the consumer, the business will be a success.

Before the prospect of coronavirus, we had expected annualised full price sales for new licensed products to be around £20m and to generate £4m of profit.

Total Platform — A Trial

Taking working with third-party brands to the next level

The aim of this Total Platform is to leverage the investment NEXT has made in its warehousing, call centres, distribution networks, customers, marketing and systems and make those assets available to third-party brands through their own dedicated bespoke brand website.

NEXT has agreed heads of terms with a third-party business to build and operate their website for them. The website would look and feel like the client's website but would be built on all the functionality available on NEXT's own website, along with our order by midnight for next-day delivery promise, store collections and returns.

Complete online service

But this trial is much more than an outsourcing deal. The client's website will link into ALL the other elements of our platform. This will allow us to provide all the services the client needs to serve its online customers; from warehousing, distribution, data management, retail deliveries, call centre services through to complaint resolution, returns refurbishment and clearance. We will also be providing a number of dedicated, translated overseas websites for our client with the ability to take payment in local currencies.

One simple commission

Total Platform will offer a pay-as-you-go answer to operating an online business. Clients pay through fixed **commission** on their total sales, which means that the costs such as website, systems and warehousing all vary in line with sales. It also means their businesses can grow without the capital costs, operational risks and time associated with developing new warehousing, systems, distribution networks and website functionality.

We plan to have our first client operational later this year and are actively talking to other brands about providing a similar service in 2021.

NEXT RETAIL

RETAIL SALES AND PROFIT

£m	Jan 2020	Jan 2019	Var %
Total sales	1,851.9	1,955.1	-5.3%
Operating profit	163.9	212.3	-22.8%
Net margin	**8.9%**	**10.9%**	

Full price sales were down -4.3% which was +0.8% ahead of the guidance given in September 2019 of -5.1%. Total Retail sales (including markdown sales) were down -5.3% on last year.

We believe that Retail sales were improved by better shop-floor stock availability. During the year we increased the frequency of deliveries at a cost of £1m. We also more closely aligned delivery processing shifts to van arrival times to reduce delay in getting stock onto the shop floor. Following these process changes, stock received and waiting to be put onto the shop floor (store backlog) was reduced by 55%.

Profit was down -23% on last year and net margin reduced by -2.0% to 8.9%, mainly due to the costs of store occupancy and other fixed overheads which did not fall in line with like-for-like sales. Retail wage costs were well controlled and, despite inflationary cost increases, improved productivity meant store payroll costs fell broadly in line with sales.

Retail Margin Analysis

The table below sets out significant Retail margin movements by major heads of costs.

Net margin on total sales to January 2019		**10.9%**
Bought-in gross margin	Underlying bought-in gross margin added +0.3% to margin, mainly due to achieving a better than expected Dollar exchange rate.	**+0.3%**
Markdown	Lower clearance rates would have reduced margin by -0.8% but were partially offset by a higher participation of full price sales.	**- 0.2%**
Stock loss	The value of stock loss was flat on last year and did not fall in line with sales, reducing margin.	**- 0.1%**
Store payroll	Increased rates of pay reduced margin by -0.4%, however this was offset by improved productivity.	**- 0.1%**
Store occupancy	Falling like-for-like sales increased occupancy costs as a percentage of sales, reducing margin by -1.4%. Rent reductions and additional concession income improved margin by +0.3%.	**- 1.1%**
Warehousing & distribution	A combination of falling sales (-0.1%), wage inflation (-0.1%) and increased cost of picking and distribution (-0.2%) reduced margin.	**- 0.4%**
Central costs	Central costs have not reduced in line with sales, reducing margin.	**- 0.4%**
Net margin on total sales to January 2020		**8.9%**

RETAIL SPACE

Overall net space grew by +98,000 square feet in the year, an increase of +1.2% as set out below. The increase in space came from relocating existing stores into larger sites and the addition of concessions. The reductions came from the closures of stores with low levels of profitability.

	Store numbers	NEXT Sq. ft. (k)	Concessions Sq. ft. (k)	Total Sq. ft. (k)
January 2019	**507**	**7,989**	**305**	**8,294**
Mainline re-sites (10)	0	+ 132	+ 57	+ 189
Mainline closures	- 7	- 70	- 1	- 71
Clearance stores	- 2	- 20	0	- 20
January 2020	**498**	**8,031**	**361**	**8,392**
Change in square feet		+ 42	+ 56	+ 98
Change %		+ 0.5%	+ 18.3%	+ 1.2%

New space performance and forecast payback

Branch profitability[8] of new space opened in the year is forecast to be 21% and the investment in new space is forecast to payback within 27 months (excluding the effects of coronavirus).

Store closures and transfer of trade

We closed seven mainline stores and estimate that around 20% of sales from the closing stores transferred to nearby stores. The marginal profit gained on these transferred sales is the gross margin less the associated additional variable costs. We estimate that profit gained on transferred sales was broadly equal to the profit lost in the closed stores. The table below sets out the store closure economics for last year. The implication is that where stores are making 9% or less net margin and where we are able to transfer 20% to nearby stores, closure is cost neutral.

£m	Closed stores	Transferred trade	Total
Sales (VAT inclusive)	- 11.9	2.3	**- 9.6**
Net margin before central overheads (NBC)	- 1.0	1.0	**0.0**
% NBC	**8%**	**44%**	

Concessions

Concession space grew by +18% in the year and now represents 4.3% of all Retail space. Annual rental income has increased by £2m to £14m and now accounts for 7% of our total store rent bill.

Retail space in the year ahead

In the year ahead, we expect to add +57,000 square feet through the addition of two new trading locations and the relocation of five existing stores. We plan to close 14 low profitability stores occupying 122,000 square feet. The net impact in Retail space is forecast to be a reduction of -65,000 square feet (- 0.8%).

[8] Store profitability is defined as profit before central overheads and is expressed as a percentage of VAT inclusive sales.

RENT COSTS AND LEASE RENEWALS

In the year we renewed 44 leases. Rent on these stores reduced by -30%, with an average lease term of 3.6 years. These reductions allowed us to continue to trade in stores which would otherwise have closed.

44 store renewals January 2020 £m	Before renewal	After renewal	
Rental costs[9]	13.6	9.5	- 30%
Concession income		(0.1)	
Net rent	13.6	9.4	- 31%
Net rent/sales (VAT inc.)	10.3%	7.1%	
Rent-free incentive/capital contribution used for store upgrade[10]		£3.2m	
Average lease term[11]		3.6 years	
Average branch profitability (before central overheads)		24%	

Outlook for Lease Renewals in the Year Ahead

In the year ahead, we expect to negotiate lease renewals on 53 stores and anticipate rent reductions of -40%. This includes eight very short term lease renewals with terms of less than two years at a very low rent. In stores where the lease has been renewed for more than two years, the average rent reduction is expected to be -29%.

After accounting for additional concession income in these stores, net rent is forecast to reduce by -£7.7m per annum (-42%) as a result of lease renewal negotiations. The average lease term is expected to be 3.9 years and the profitability of the stores would be 26% (before central overheads).

53 store renewals January 2021 £m	Before renewal	After renewal	
Rental costs[12]	18.5	11.0	- 40%
Concession income		(0.2)	
Net rent	18.5	10.8	- 42%
Net rent/sales (VAT inc.)	11.1%	6.5%	
Rent-free incentive/capital contribution used for store upgrade[10]		£4.0m	
Average lease term[11]		3.9 years	
Average branch profitability (before central overheads)		26%	

[9] Annualised rental costs including the release of any capital contributions or rent-free incentives, over the term of the lease, which will not be used to refit the stores being renewed. Excluding the release of surplus capital contributions, rent is forecast to decline by -29%.
[10] This is a cash contribution or rent-free period given by the landlord spent on upgrading the store.
[11] Average lease term shown is to the earlier of the lease end or break clause.
[12] Excluding the release of surplus capital contributions rent is forecast to decline by -40%.

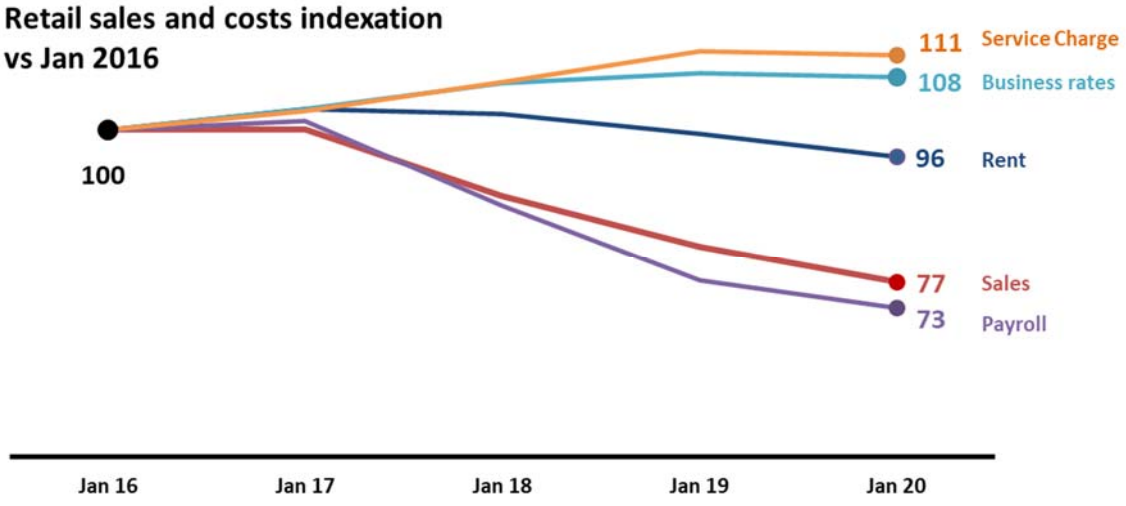
Lease Commitments and Portfolio Profitability

Fifty per cent of our leases (by value) will expire or break within 4.8 years and 81% within the next 10 years. The table below summarises our net store profitability (before central overheads) by profitability band as at January 2020. As shown, 98% of Retail's turnover is profitable and 91% is achieving at least 10% profit. N.B. This profitability is based on our January guidance and does not reflect the effect of lost sales resulting from coronavirus.

Store profitability	% of turnover
>20%	58%
>15%	81%
>10%	91%
>5%	97%
>0%	98%

Long Term View of Retail Sales and Costs

The graph below indexes Retail sales[13] and costs from January 2016 to January 2020. This demonstrates the improvements we have made in reducing payroll costs as well as the challenges that remain to current levels of rents, rates and service charges.



[13] Annualised sales of Mainline store only, at the end of each year.

RETAIL STORES IN THE NEXT ONLINE PLATFORM

Our stores remain an important part of our Online business in the UK. UK Online customers collect nearly 50% of their orders from and bring over 80% of their returns to our stores. Our focus for our stores for the year ahead is three-fold:

- The continued improvement to the **systems** and procedures we use to ensure customer collections are quick, accurate and efficient.
- The continued improvement in the **speed and quality** of Online returns processing to maximise their availability for resale.
- Increasing the amount of **Online work** we do in our stores in relation to making returns customer-ready and fit for resale before they leave the store. This has three advantages: (1) it reduces the pressure on staffing levels in our warehouses at peak times, (2) increases the speed at which returns become available for resale and (3) helps improve store productivity through making use of contracted hours at quieter times of the day.

NEXT, Bicester

NEXT FINANCE

NEXT FINANCE SALES AND PROFIT

£m	Jan 2020	Jan 2019	Var %
Note of credit sales (VAT ex.)	*1,747.6*	*1,688.8*	*+3.5%*
Interest income	268.7	250.3	+7.3%
Bad debt charge	(43.3)	(52.1)	- 16.9%
Overheads	(42.4)	(36.9)	+15.0%
Profit before cost of funding	**183.0**	**161.3**	**+13.4%**
Cost of funding[14]	(36.3)	(34.0)	+6.4%
Net profit	**146.7**	**127.3**	**+15.3%**
Average debtor balance	£1,185m	£1,140m	+4.0%
ROCE (after cost of funding)	12.4%	11.2%	

NEXT Finance has performed well in the year. Interest income was up +7.3% on last year and net profit was up +15.3%.

Growth in interest income was driven by a combination of increased credit sales and an increase in APR actioned in November 2018. Underlying credit sales grew by +3.5%, marginally ahead of the +2.5% growth in credit customer base. We believe that credit sales per customer grew mainly as a result of the continued increase in the products available on our website.

CREDIT CUSTOMERS

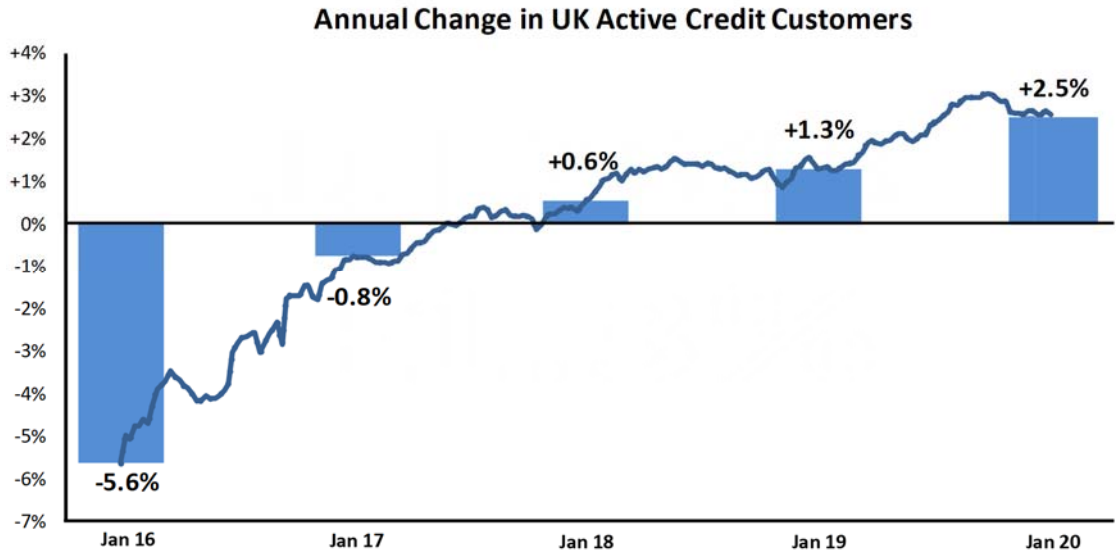
Active[15] credit customers closed the year up +2.5% on last year. Total credit sales per customer (including interest) were up +1.2%.

Credit customers ('000)	Jan 2020	Jan 2019	Var %
Opening actives	2,578	2,545	+1.3%
Average actives	2,582	2,524	+2.3%
Closing actives	2,643	2,578	+2.5%
Credit sales per average active (£ VAT Ex)	*£677*	*£669*	*+1.2%*

Credit Customer Growth Drivers

Last year was our third consecutive year of growth in closing active customers and demonstrates the effects of the improvements we have made to our credit offers, marketing and account services. The five year trend is shown in the following chart.

[14] Cost of funding has been restated for January 2019 to reflect the new debt to equity ratio. See page 31.
[15] Active customers are defined as those who have placed an Online order or received a standard account statement in the last 20 weeks.



We believe the following initiatives have driven the increase in recruitment of new customers this year:

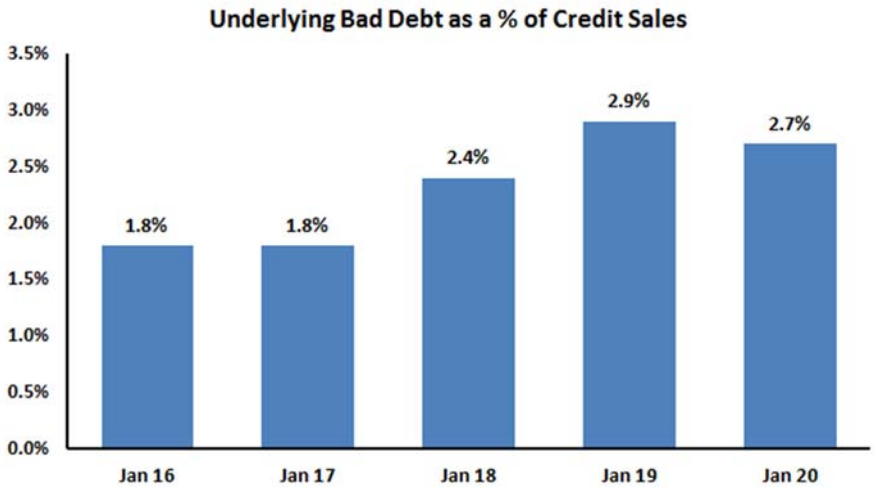
- **Investment in new credit scoring techniques and software**, which has allowed us to accept more applicants without lowering our acceptance criteria
- **Improved Online marketing**, for example using personalised banner advertising on our homepage

BAD DEBT CHARGE

The bad debt charge in the year was £43m, which was £9m lower than last year. This was partly due to an over provision we made last year for doubtful debts. We subsequently recovered these debts, which resulted in a release of the provision this year. The underlying bad debt charge is set out below:

£m	Jan 2020	Jan 2019	Var %
Bad debt charge	43.3	52.1	- 16.9%
Adjusted for provision release	+3.4	- 3.4	
Underlying bad debt charge	**46.7**	**48.7**	**- 4.1%**
Underlying bad debt charge as a % of credit sales	2.7%	2.9%	

The underlying bad debt charge as a percentage of credit sales reduced in the year from 2.9% to 2.7%. As seen in the following chart, we started to experience an increase in bad debt in 2017/18. In January 2019 we made two changes to our lending criteria: (1) we reduced the amount of credit limit increases and (2) we increased the time required between successive increases.



Following the credit limit restrictions, we have seen a reduction in the average credit limit, customer balance and debtor days (the average number of days a customer takes to pay down their balance).

Key metrics	**Jan 2020**	**Jan 2019**	**Var %**
Average credit limit £	4,118	4,290	- 4.0%
Average balance £	532	533	- 0.1%
Average debtor days	225	233	- 3.4%

FINANCE OVERHEADS

Overheads increased to £42m, up +15%. Costs directly related to the Finance business (£17m) grew slightly faster than sales (+12%) due to investment in our credit systems and call centre operations. Following a review of central overheads, we have increased the cost allocation to the Finance business by +17% and now recharge £25m.

FINANCE BUSINESS BALANCE SHEET AND COST OF FUNDING

In our Half Year Results, we outlined our approach to funding the Finance business. We aim to fund any increases in customer net receivables with 15% equity and 85% debt. So for every £100 of additional receivables we own, we would expect to take on an additional £85 of financial debt. It is worth stressing that net receivables are calculated *after* providing for bad debt. So to report £100 of receivables on our balance sheet we would need to be owed £107 (that has not defaulted).

We have restated last year's cost of funding on the same basis and the calculation of the cost of funding is set out below. The average interest rate increased by +0.1% to 3.6% as a result of the issuance of a new bond in April 2019.

Cost of funding calculation	**Jan 2020**	**Restated Jan 2019**	**As reported Jan 2019**
Average next**pay** receivables	£1,185m	£1,140m	£1,140m
Debt funding %	85%	85%	100%
next**pay receivables funded by debt**	**£1,008m**	**£969m**	**£1,140m**
Annual interest rate %	3.6%	3.5%	3.5%
Cost of funding for 12 months	**£36.3m**	**£34.0m**	**£40.1m**

OTHER BUSINESS ACTIVITY

NEXT SOURCING

NEXT Sourcing (NS) is our internal sourcing agent, which procures around 38% of NEXT branded product. Profit in the year ended January 2020 increased by +£2.4m to £32m. The table below sets out the performance of the business in Pounds and in Dollars.

Sales in Dollars were down -5% due to lower NEXT purchases. Profit in Dollars was up +4.1% due primarily to overhead savings, with lower sales being offset by improved margin.

	Jan 2020 £m	Jan 2019 £m		Jan 2020 USD m	Jan 2019 USD m	
Sales (mainly inter-company)	543.0	550.0	- 1.3%	695.1	731.5	- 5.0%
Operating profit	**32.0**	**29.6**	**+8.2%**	**41.0**	**39.4**	**+4.1%**
Net margin	**5.9%**	**5.4%**		**5.9%**	**5.4%**	
Exchange rate	1.28	1.33				

LIPSY

Lipsy is a wholly owned subsidiary, based in London, that sells women's fashion brands including Lipsy's own brand and over 140 third-party brands. In July 2019, Lipsy acquired Fabled by Marie Claire, which significantly increased the Group's offer of Branded Beauty products.

Sales achieved through NEXT's stores and websites are reported by NEXT Retail and Online respectively. Online, UK sales are reported within LABEL and non-UK sales are reported within Overseas. The table below sets out Lipsy's total sales performance by channel and operating profit.

£m	Jan 2020	Jan 2019	Var %
Sales through NEXT websites: Online clothing	113.8	116.7	- 2.5%
Sales through NEXT websites: Online beauty	18.5	5.2	+255.5%
Sales through NEXT stores	9.8	12.9	-23.6%
Sales reported through NEXT	**142.1**	**134.8**	**+5.4%**
Other sales (Fabled, wholesale, franchise, third-party websites)	13.1	15.1	- 13.7%
Total sales	**155.2**	**149.9**	**+3.5%**
Net operating profit (exc. Lipsy and Fabled acquisition costs)	**15.9**	**17.1**	**- 7.0%**
Net operating profit (inc. Lipsy and Fabled acquisition costs)	**13.0**	**11.0**	**+18.0%**

As detailed in our Half Year Report, we expected clothing sales in the second half of the year to be hampered by range errors and stock shortages. Clothing sales through NEXT Online were down -2.5% on last year and down -24% in Retail stores. With the addition of Beauty, overall sales via NEXT were up +5.4%. Non-NEXT sales were down -13.7%, due to the winding up of the UK wholesale business. Underlying profit (excluding acquisition costs) was £15.9m, down -7% on last year. The reduction in profit was mainly due to the fall in clothing sales and higher levels of surplus stock in the first half of the year. After acquisition costs, net operating profit was £13m, up +18.0%. The increase in post-acquisition profit came as a result of the crystallization and settlement of some management earn out incentives.

INTERNATIONAL RETAIL AND FRANCHISE STORES

Our franchise partners currently operate 185 stores in 31 countries and at the close of the year we had three owned stores in the Czech Republic. During the year we closed our unprofitable retail operations in Slovakia and Sweden.

Revenue and profit are set out in the table below. Profit has remained flat on declining sales due to the closure of our unprofitable operations.

£m	Jan 2020	Jan 2019	Var %
Franchise income	52.0	52.2	- 0.3%
Own store sales	4.9	10.0	- 51.7%
Total revenue	**56.9**	**62.2**	**- 8.6%**
Operating profit	**6.2**	**6.2**	**- 0.5%**

NON-TRADING ACTIVITIES

The table below summarises central costs and the profit on other non-trading activities.

£m	Jan 2020	Jan 2019
Central costs and employee share schemes	(21.5)	(19.4)
Property management	(2.2)	6.7
Foreign exchange	(1.5)	1.4
Associates and joint venture	(0.4)	0.1
Total	**(25.6)**	**(11.2)**

Property profit was £8.9m lower than last year. This was due to a £3.6m increase in provisions made in the year and £5.3m of one-off profits in the prior year. The year ending January 2019 benefited from a profit of £1.4m on two development sites and £3.9m compensation income received upon the early completion of two store leases at the landlords' request.

Foreign exchange movements relate to contracts not eligible for hedge accounting.

PENSION SCHEME

On the IFRS accounting basis, our defined benefit schemes have moved from £125m surplus at January 2019 to £133m surplus at January 2020. This movement is primarily due to an increase in the value of equity investments, partially offset by an increase in liabilities resulting from a reduction in the discount rate assumption applied to the liabilities.

A full valuation as at 30 September 2019 is currently being undertaken and the discussions between the Company and the Trustee are well advanced. The preliminary results of this valuation showed a small deficit of £12m on the proposed Technical Provisions basis.

CASH FLOW

Profit in the year before interest, tax, depreciation and amortisation was £896m. Cash flow after non-discretionary outflows of taxation, interest and working capital was £663m. After investing in capital expenditure and paying ordinary dividends, but before financing customer receivables, the Group generated surplus cash of £307m. Total share buybacks in the year to January 2020 were £300m; we purchased 5.4m shares at an average price of £55.83, reducing our shares in issue at the start of the year by 3.9%. The table below summarises our main cash flows in the year ended January 2020 and the prior year.

£m	Jan 2020	Jan 2019
Profit before Interest, Tax, Depreciation & Amortisation	896	884
Interest	(39)	(37)
Taxation	(138)	(144)
Working capital and other	(56)	(34)
Discretionary cash flow	**663**	**669**
Capital expenditure	(139)	(129)
Investment in subsidiary/associate	(3)	(3)
Ordinary dividends	(214)	(216)
Surplus cash	**307**	**321**
Financing of additional next**pay** receivables*	(23)	(90)
Share buybacks	(300)	(325)
Movement in net debt	**(16)**	**(94)**

**85% of movement in Jan 2020, 100% of movement in 2019 (see page 31 for further explanation).*

INTEREST

Net interest charged in the Income Statement for the year was £44m, an increase of +£5m on the previous year as a result of higher net debt and higher average interest rate following the issue of the new bond in April 2019. As a result of payment timing differences, the interest paid was £39m.

TAX

Our full year effective tax rate was 18.5%, broadly in line with last year. For the year ahead we have assumed an effective tax rate of 18.5%. This is based on the current UK headline corporate tax rate, adjusted for our overseas business.

In the year ahead, HMRC are accelerating Corporation Tax payments so that the full tax charge is paid in the year in which it is incurred. Previously, half of the tax payment was deferred until the following year. If the Company had achieved its pre-coronavirus central guidance, this change would have resulted in an additional £70m cash outflow to HMRC.

ORDINARY DIVIDEND

It is our usual practice at this time of the year to propose a final ordinary dividend to be paid at the start of August, subject to approval by shareholders at the Annual General Meeting held in May. However, given the highly unusual circumstances arising from the coronavirus, we believe it is important to maintain flexibility around the timing of a decision to pay this dividend.

So, instead of proposing a final dividend at this time, the Board currently intends to declare a second interim dividend in June. The directors will keep the Group's liquidity position under review over the next few months and determine the quantum and timing of the second interim dividend in the light of the outlook for the Group's balance sheet at that time. Our current plan is to declare an interim dividend of up to 116.5p payable on 3 August, although we may decide to delay this payment by up to three months if we need cash to keep our balance sheet secure through our period of peak borrowings. For further detail see Outlook and Stress Test sections on page 37.

CAPITAL EXPENDITURE

Spend by Category

£m	Jan 2021 (e) Current plans	*Jan 2021 (e) Pre-coronavirus*	Jan 2020	Jan 2019
Retail space expansion	30	*32*	24	57
Retail cosmetic/maintenance capex	5	*15*	14	12
Total capex on stores	**35**	*47*	**38**	**69**
Warehouse	55	*81*	87	52
Head office infrastructure	2	*7*	5	4
Systems	8	*10*	9	4
Total capital expenditure	**100**	*145*	**139**	**129**

Capital expenditure in the year ending January 2020 was £139m, £10m higher than the prior year. Warehouse capex was our biggest investment at £87m, a £35m increase on the prior year. This warehouse investment is part of an ongoing expansion programme to increase capacities to support Online sales growth. The £31m reduction in Retail capex is a function of opening fewer new stores; most of the space expansion in the year relates to the re-site of small stores in existing locations to larger sites, typically on improved lease terms. Retail cosmetic and maintenance capex increased by £2m; this is due to the renewal of leases where capital contributions from the landlord are being reinvested in the stores.

Capex in the year ahead

Pre-coronavirus, we had originally planned to spend £145m in the year ahead, but we have scaled this back to £100m by delaying non-essential capex. Our warehouses will again see the largest investment with capital spend of £55m. This includes the extension of bulk storage facilities in our current Online boxed warehouse. We expect to spend £35m on store capex in the year, this includes three large stores which we plan to re-site to new locations.

The systems expenditure of £8m includes projects which update the code that runs three core systems. The systems in question are (1) our web platform (2) our warehouse management systems and (3) our product systems. These projects all aim to deliver improvements to resilience, performance and security along with an improvement in the ease with which they can be developed going forward.

BOND, BANK FACILITIES AND NET DEBT

During the year we took steps to extend the maturity of our long term debt financing. We successfully issued a £250m six year bond, which matures in August 2025. We initially retained £50m of these bonds which were later issued in August 2019. The value of Sterling bonds outstanding at January 2020 amounted to £1,125m, which compares with £875m at January 2019. In addition, we refinanced our bank facilities, combining two facilities maturing in 2020 and 2021 into a new £450m facility maturing in 2024. Total bank and bond financing amounts to £1.6bn.

Our £325m bond matures in October 2021. It is our intention to refinance this with the issuance of a new bond prior to maturity.

OUTLOOK FOR SALES AND PROFIT

APPROACH TO GUIDANCE IN AN UNFORECASTABLE YEAR

Uncertainty and Stress Testing

Uncertainty around the scale, timing and impact of the coronavirus pandemic means it is impossible to give meaningful guidance for profits in the year ahead. Instead, we have given a range of outcomes for the current year for different sales scenarios. The resulting stress test is very useful; it gives a clear picture of the possible effects on our balance sheet and finances and points to the practical steps we can take to ensure that the Company is best placed to cope with all imaginable outcomes.

Method

The method we have used to stress test the business is as follows:

1. Start with our Base Case sales, profits and cash flow guidance *before* taking account of any impact of coronavirus (i.e. based on the forecast given in January)
2. Model varying levels of sales of decline
3. Assess the expected impact on cash flow for each scenario
4. Outline the measures we can take to increase cash retained within the business

Conclusion of Stress Test

The conclusion of our stress test is that the business could sustain the loss of more than £1bn (25%) of annual full price sales, without exceeding our current bond and bank facilities. This accounts for the rates holiday announced by Government but *excludes* any use of Government lending or any measures that may be introduced to help with wages during closure.

1. BASE CASE — BEFORE THE CORONAVIRUS IMPACT

Base Case — Sales

The table below sets out our January central guidance for full price sales growth by trading divisions in the year ahead, before the impact from the coronavirus. For comparison, we have also shown the actual sales performance in the year ending January 2020.

Full price variance on previous year	Base Case guidance 2020/21 (e)	Actual performance in 2019/20
Online sales	+10.9%	+11.9%
Retail sales (including sales from new space)	- 5.8%	- 4.3%
Product full price sales	**+3.1%**	**+3.7%**
Finance interest income	+1.0%	+7.3%
Total full price sales including interest income	**+3.0%**	**+4.0%**

Base Case Profits and Earnings Per Share (52 Week Basis)

In the Base Case we estimated that Group profit before tax would be around £734m, up +0.8% on the prior year. Our January central guidance for sales, profits and EPS is set out in the table below.

Full year estimate to January 2021	Base case guidance
Total full price sales versus 2019/20	+3.0%
Group profit before tax	£734m
Group profit before tax versus 2019/20	+0.8%[16]
Earnings Per Share growth versus 2019/20	**+3.3%[16]**

The guidance above is based on a 52 week trading period. However, the financial year ahead will be a 53 week period to 30 January 2021. We had expected the additional week of sales to generate profit of around £13m.

[16] In our January Trading Statement, we reported profit guidance of £734m, which would be up +1% on the prior year, and EPS growth of +3.5%. Profit in the year ended January 2020 finished slightly ahead of our forecast so profit growth would now be up +0.8% with EPS up +3.3%.

2. MODELLING SALES AND COST IMPACT OF CORONAVIRUS

Supply Chain Effects

When the coronavirus outbreak started, we assumed that the main impact would be on our supply chain. There has been some effect on supply, though as yet the only meaningful delays have come from suppliers based in mainland China. Mainland China accounts for 27% of our supply base (excluding third-party brands). This number increases to 47% once you account for goods manufactured outside China but made with Chinese fabric and trims (buttons, zips etc.).

So far, half the goods we were expecting from China in the month of February are running late. Most of our factories in China have now returned to work and we expect the supply of stock from China to improve as the year progresses. As yet we do not know what impact the virus will have on our other key territories, though at present it appears that the virus is not having a significant impact on warmer territories. The table below sets out the percentage of stock delivered from our most important territories:

Territory	Supply % Year ended Jan 2020
Mainland China	27%
Bangladesh	24%
India	12%
Sri Lanka	7%
Cambodia	6%
Turkey	6%
Vietnam	5%
Myanmar	4%
Pakistan	4%
Portugal and North Africa	2%

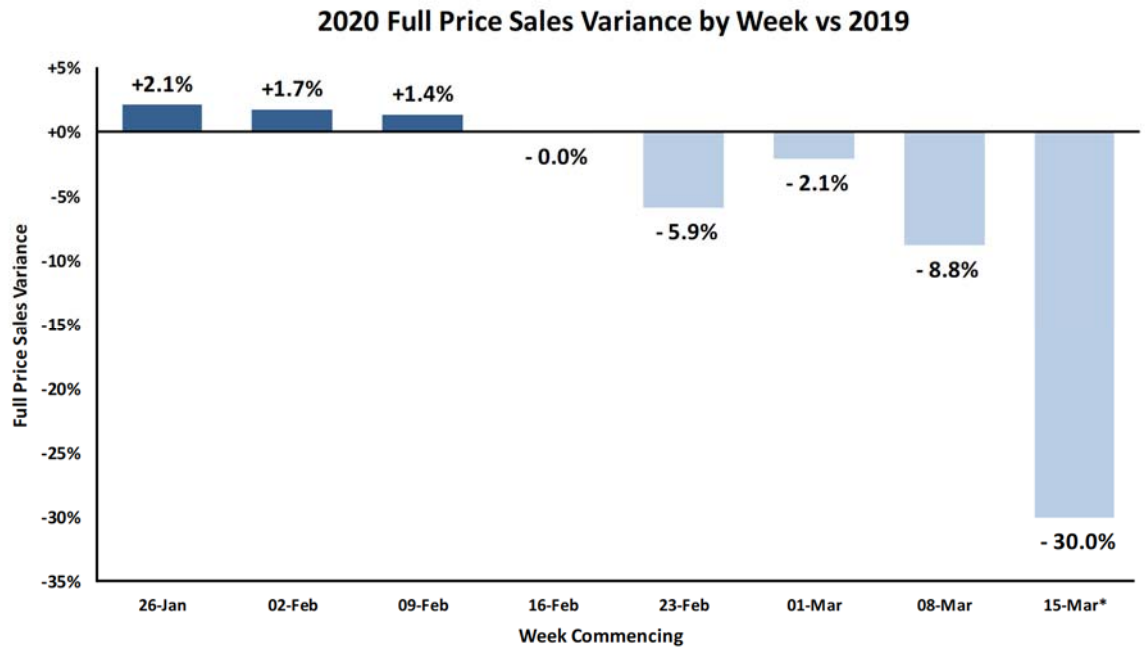
In reality, the threat posed to the supply of goods pales into insignificance when compared with the potential impact on demand. Indeed, the inability of some suppliers to make and deliver the stock we have ordered may help manage stock levels at a time when we are certain to have higher than normal levels of surplus stock.

Sales Impact to Date

The graph and table below show our sales growth in Retail stores and Online versus last year for the year to date. The last column on the right shows sales up to the evening of Tuesday 17 March. The year-on-year performance for mid-February is distorted by the fact that this year the third and fourth weeks were adversely affected by flooding.

Week commencing	**26 Jan**	**02 Feb**	**09 Feb**	**16 Feb**	**23 Feb**	**01 Mar**	**08 Mar**	**15 Mar***
Online (including overseas)	+7.4%	+7.5%	+11.2%	+6.2%	+2.3%	+3.9%	- 2.0%	- 25.0%
Retail	- 3.9%	- 4.6%	- 9.6%	- 6.9%	- 12.9%	- 12.4%	- 19.7%	- 46.0%
Brand (including interest income)	**+2.1%**	**+1.7%**	**+1.4%**	**- 0.0%**	**- 5.9%**	**- 2.1%**	**- 8.8%**	**- 30.0%**

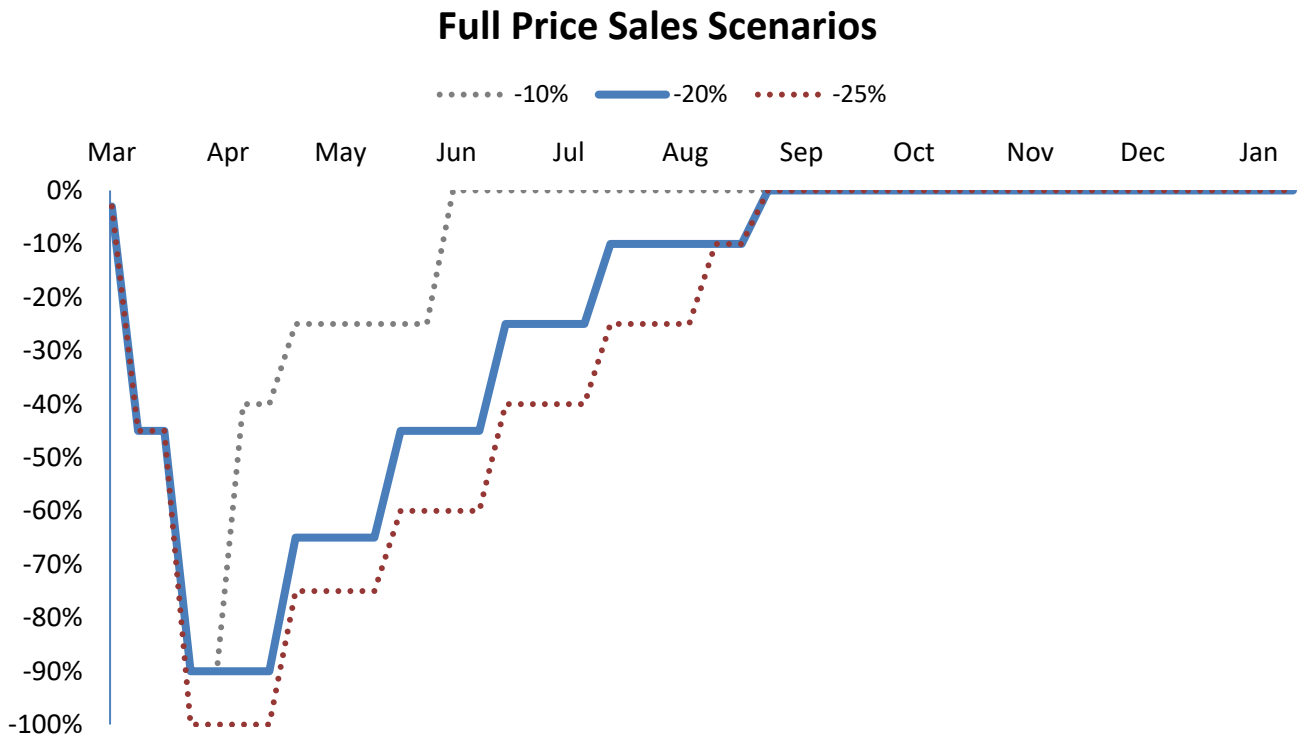
**Part week to Tuesday 17 March*



Sales Scenarios

We have modelled three scenarios for full price sales as set out below. The first scenario assumes a shorter pandemic duration. The second and third are spread out over 24 weeks. It is important to stress that no one knows, and the phasing shown below is pure guesswork. Our gut feeling is that the -10% scenario is too optimistic, and we believe the -25% scenario is overly pessimistic. The week by week progression does not make much difference to our cash resources and the number to focus on is the total quantum of lost sales rather than the timing.

Full price sales versus last year	**Scenario -10%**	**Scenario -20%**	**Scenario -25%**
Weeks 1 & 2	- 45%	- 45%	- 45%
Weeks 3 & 4	- 90%	- 90%	- 100%
Weeks 5 & 6	- 45%	- 90%	- 100%
Weeks 7 & 8	- 25%	- 65%	- 75%
Weeks 9 & 10	- 25%	- 65%	- 75%
Weeks 11 & 12	- 25%	- 45%	- 60%
Weeks 13 & 14	-	- 45%	- 60%
Weeks 15 & 16	-	- 25%	- 40%
Weeks 17 & 18	-	- 25%	- 40%
Weeks 19 & 20	-	- 10%	- 25%
Weeks 21 & 22	-	- 10%	- 25%
Weeks 23 & 24	-	- 10%	- 10%
Decline for affected period	**- 42%**	**- 45%**	**- 53%**
Rest of year	0%	0%	0%
Full year	**- 10%**	**- 20%**	**- 25%**



Cost Assumptions

The paragraphs below set out the way in which we have modelled the major heads of cost.

Stock

We have assumed that we can cancel out of somewhere between 10% and 20% of the lost sales, saving the cost value of the stock. The later in the year the sales are lost, the greater our opportunity to cancel orders.

Clearance rates

We have assumed that we will not achieve any additional markdown sales by clearing additional surplus stock. This is potentially overly conservative.

Variable costs

As sales reduce, the demand for labour in our warehouses, stores and call centres would reduce. We have assumed that for warehouses and call centres, costs are 20% variable. So if Online sales drop by -10%, costs would only fall by -2%.

Retail store wages are assumed to be 30% variable to Retail sales. We believe this can be achieved mainly through not requiring staff to work more than their contracted hours and, in the short term, we would not replace leavers. In the event of a prolonged closure period, and in the absence of any Government assistance, we may have to take more radical action on wages, but we have not factored this into the model.

Online distribution costs, many of which are contracted out to a third-party on a per parcel basis, are assumed to be 65% variable.

Head office

Most Head Office functions are vital to the long term future of the business and we have assumed that wages remain broadly fixed.

Bad debt

We have not assumed any change in bad debt rates or payment profile though in reality payments may be a little slower than expected and bad debt may increase.

Rents

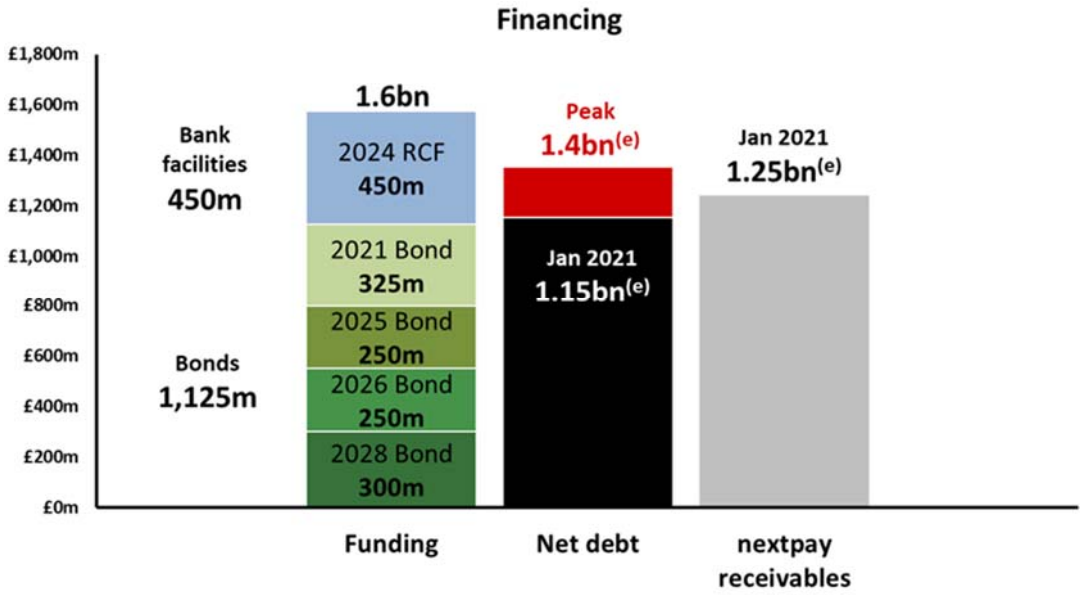
We have assumed that rents and all other fixed costs are not variable.

3. CASH FLOW MODEL

Base Case Finances

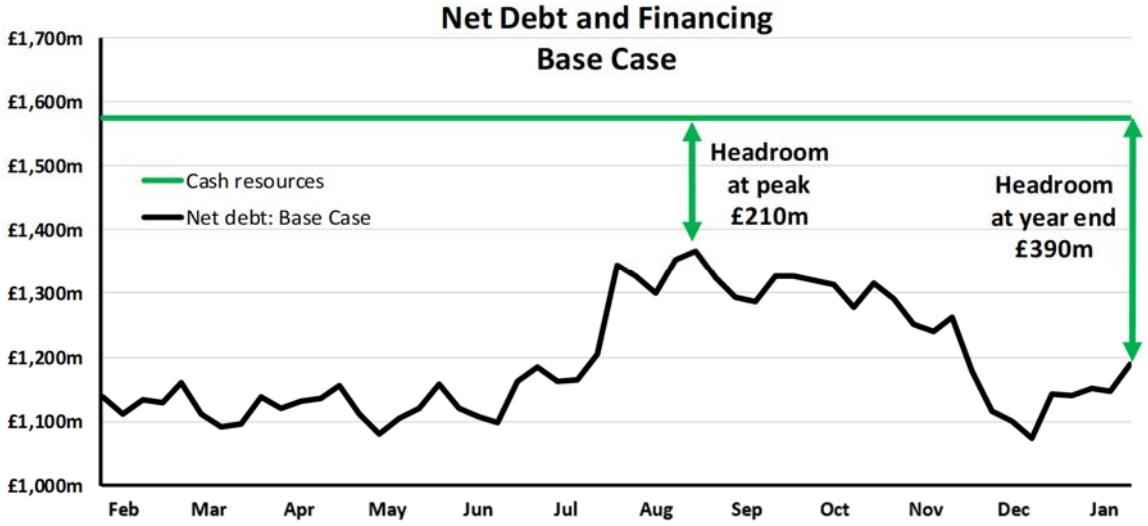
NEXT has long term bond and debt facilities of £1.6bn; all of these facilities are secured for more than a year. Peak debt was forecast to be £1.4bn in August.

The bar chart below sets out our bond and bank facilities in the leftmost bar consisting of £1,125m of bonds and a £450m bank facility maturing in 2024. The central bar shows our Base Case year end and peak borrowing requirements. The right-hand bar demonstrates that year end net debt would normally be more than matched by our wholly owned consumer receivables book.



Base Case Cash Flow Model

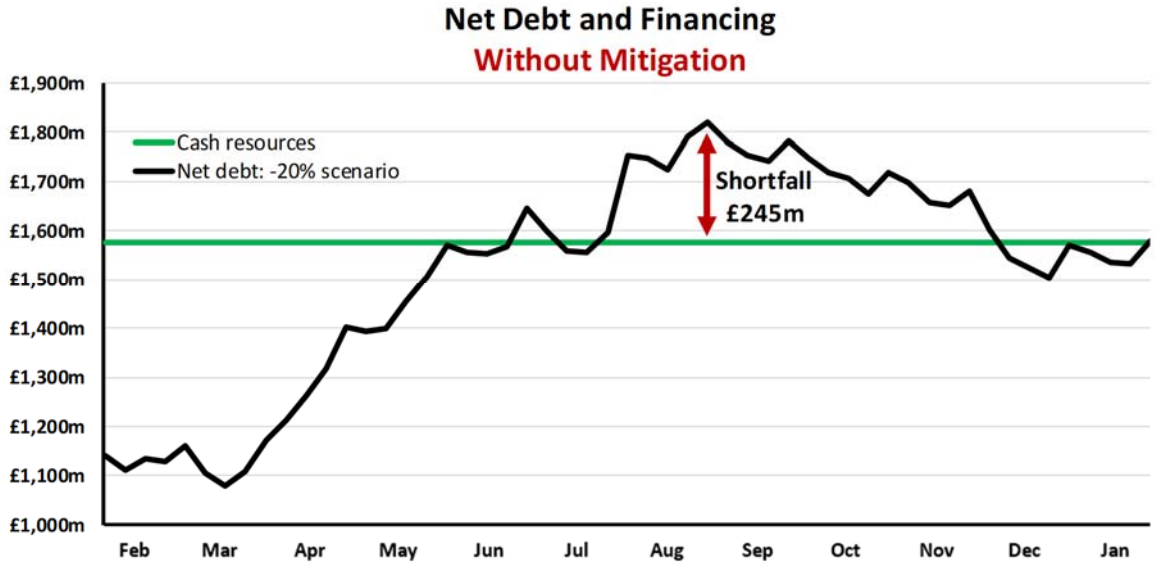
The graph below shows our Base Case cash flow for the year ahead, relating to our January guidance. This model assumes, amongst other things, that we buy back £280m of shares over the course of the year. The black line shows our expected net debt position throughout the year, the green line shows the level of our cash resources. As can be seen, in a normal year we would expect to keep headroom of around £210m at peak financing in late August.



Cash Flow Without Mitigating Action

The table below sets out the cash flow impact of lost sales after cost saving measures but without the Company taking any further corporate action to conserve cash (such as cancelling buybacks). For completeness, the EBITDA and Profit before tax the Company would generate is shown in the last two lines of the table.

£m (e)	Scenario -10%	Scenario -20%	Scenario -25%
Lost full price sales (VAT ex)	- 445	- 820	- 1,010
Cash from additional clearance sales	+0	+0	+0
Operational cost savings	+55	+80	+90
Reduced stock purchases	+15	+50	+65
Inflow from reduction in Online lending	+55	+120	+150
Corporation tax saving and rates holiday	+130	+180	+215
Cash cost of lost sales	**- 190**	**- 390**	**- 490**
Implied Group EBITDA[17]	£665m	£375m	£230m
Profit before tax[17]	£490m	£200m	£55m



4. MITIGATION

The following actions can be taken to increase cash resources in the current financial year.

Level 1 Measures: Share Buybacks, ESOT and Capex

Suspending buybacks, employee share option trust (ESOT) purchases and deferring non-essential capital expenditure. These actions will have no or little impact on the short term operations of the business.

Level 2 Measures: Leasebacks, Securitisation and ESOT Loan Recall

We believe we can leaseback high quality assets and recall part of a loan from the Company which has been advanced to the ESOT and securitise some of our customer receivables. These actions have little impact on the operations of the business but are mildly earnings dilutive in future years as, for example, the cost of rent on a leased-back building is likely to be higher than prevailing interest rates on the proceeds of sale.

[17] Profit before tax includes the benefit of the business rates holiday.

Level 3 Measures: Delay August Dividend

We could choose to delay the payment of our usual August dividend which comes just before our peak cash requirement. This would only be necessary in the event we saw more than a -20% reduction in sales.

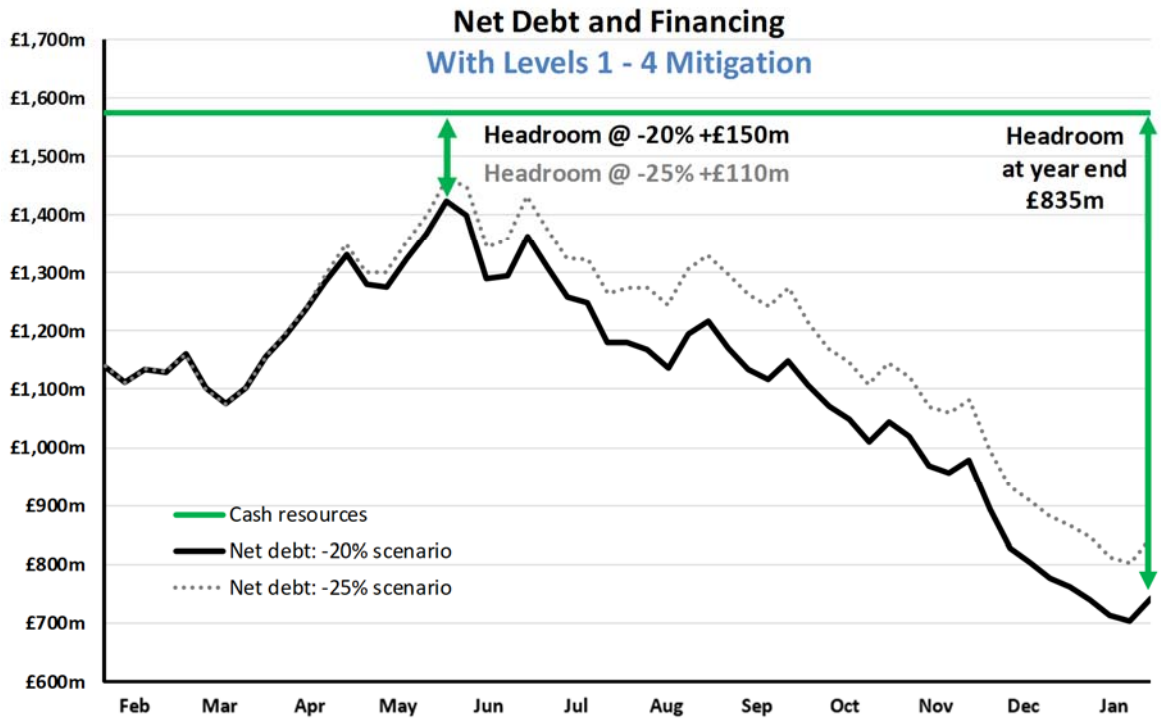
At this time of year (March) we would normally propose a final dividend and we had planned to announce a return of 116.5p per share for payment in August. Instead of proposing a final dividend now (which would commit us to the payment), our current intention is to announce a second interim dividend (of up to 116.5p) at the end of June, for payment at some point between August and October, in the event that (1) the worst of the virus has passed by that time and (2) that our finances permit the payment.

Level 4 Measure: Suspend Dividends

This would be a last resort but, in the event the business needed to conserve cash, we could suspend both the August 2020 and January 2021 dividends which would retain £220m in the Group.

Impact of Levels 1-4 Mitigation

The chart below shows our cash requirements and resources in the event that we lose -20% (£820m) of sales and take *all* levels of mitigation outlined above. The dotted line shows the scenario where sales are down -25%. As can be seen in the -20% scenario, our minimum headroom is £150m and cash resources at the year-end would rise to £835m. Even in the -25% scenario, our minimum headroom would still be £110m.



Further Measures Not Included in the Model

We have two further significant measures that would help us to increase our cash headroom in May. We could (1) bring forward our Summer End of Season Sale and (2) push back deliveries of stock into June. We estimate that the combination of these two options would increase our headroom by at least a further £100m at that time.

The following table sets out the measures we believe we can take and an estimate of the resulting cash retained at the end of August and Year End. The final line of the table shows the headroom the measures would generate at year end in the -20% scenario.

It is worth noting that, normally, our peak cash requirement would be in August, however, if all measures are undertaken the peak cash requirement moves to the end of May as shown in the previous graph.

ACTION	DESCRIPTION	Value at August £m	Value at year end £m
Suspend buybacks	We expected to spend £280m on buybacks and have spent c.£20m to date. Further buybacks are suspended until the situation stabilises	+148	+260
ESOT purchases	We had expected to spend £40m in the current year on buying shares into our Employee share option trust.	+17	+40
Defer capex	We had planned to spend £145m of which we have not committed to £70m. We intend to delay all non-essential capex (for example maintenance and refit capex). We expect to save £45m on capex.	+20	+45
TOTAL LEVEL 1		**+185**	**+345**
Part securitise Online debt	Within the terms of our bonds we can securitise up to £100m of our Online receivables.	+100	+100
Lease backs	We have some freehold warehousing and other property which could be leased back. We estimate we could realise £100m from these sales.	+100	+100
ESOT loan recall	This involves our ESOT selling shares they do not currently need to cover employee options (at today's share price) and repaying part of the loan from the NEXT Group used to buy these shares. We estimate that this would generate cash of at least £70m.	+70	+70
TOTAL LEVEL 1 & 2		**+455**	**+615**
Delay dividend	This would involve delaying our usual August dividend to October.	+147	-
TOTAL LEVEL 1, 2 & 3		**+602**	**+615**
Suspend dividends			+220
TOTAL LEVEL 1, 2, 3 & 4		**+602**	**+835**
Cash impact of lost sales and rates holiday (-20% scenario)			- 390
Base case headroom			+390
Headroom generated by all measures assuming -20% scenario			**+835**

Further Increasing our Financing Resources

We are in advanced discussions with our banks to increase our facilities by £200m to provide further flexibility and headroom during these uncertain times. These discussions are progressing well, and we expect the new facility to be in place within the next month.

Revolving Credit Facility Covenants

Under the scenario where full price sales fall by -20%, there is a risk that we may breach the Group's bank covenants during the current financial year. This would be caused by a temporary reduction in profits, however peak borrowings would remain comfortably within our total facilities.

We have had positive discussions with all our lending banks about this potential scenario. Our discussions have been encouraging and early indications suggest they would agree to a covenant waiver during the financial period to the end of January 2021.

Government Support for Businesses

We believe that Government, acting as lender and employer of last resort, can make an enormous difference to the preservation of retail jobs and businesses during the crisis. The scale and speed of the actions announced on Tuesday are very much welcomed. We believe that the availability of a Government loan facility will do much to stabilise businesses through the crisis.

At present (as can be seen from our modelling) we do not believe that we would need to draw on Government loan facilities, but they are hugely comforting, not least because they will help prevent business collapses and unemployment elsewhere in the economy.

The Government has announced and is considering further measures to assist industry at this exceptional time. For information, If NEXT were able to defer payment of National Insurance, Corporation Tax, and VAT for the rest of this financial year, it would generate an additional cash headroom of £240m at the year end.

Employment and Salaries

We would recommend that the Government urgently put in place measures to support the incomes of those who work in shops that are forced to close. We understand the immense pressure the Treasury are under at this time but would emphasise that clarity and speed on this issue would be useful for retailers and employees alike.

SUMMARY

Our industry is facing a crisis that is unprecedented in living memory, but we believe that our balance sheet and margins mean that we can weather the storm.

The crisis will pass at some point. At that time, it will be the work we do to move the business forward that will determine our future success. So our priorities are clear: (1) to do all we can to keep our workplaces and shops as safe as possible for customers and staff, (2) securing the cash resources of the business and (3) continue to develop our **Online platform** and **product ranges** throughout the next six months.

FIRST QUARTER TRADING UPDATE

Our first quarter Trading Statement will cover the thirteen weeks to 25 April 2020 and is scheduled for Wednesday 29 April 2020.

Lord Wolfson of Aspley Guise
Chief Executive
19 March 2020

APPENDIX 1 – STATUTORY SALES AND LEASES

Overview

The financial information presented in pages 4 to 48 is used by the Chief Operating Decision Maker (CODM) and management in assessing business performance against its targets and strategy. It is also the financial information used to inform business decisions and investment appraisals. Having been prepared on a basis that is consistent with prior years and current profit guidance, it is management's view that this provides both a useful and necessary basis for understanding the Group's results.

Management will continue to monitor and assess the financial information it presents so that it remains both useful and necessary to understand the Group's performance.

For statutory reporting purposes, changes are made in respect of revenue and accounting for leases.

A summary of the changes and their impact is set out below. Further detail on IFRS 16 "Leases'' and its impact on the statutory accounts is provided in Note 13 of the Financial Statements.

Revenue

Revenue presented in pages 4 to 48 is based on "Total sales" excluding VAT. "Total sales" represent VAT exclusive sales, including the full value of commission based sales and interest income. For statutory reporting purposes two adjustments are made to derive statutory revenue:

- Where third-party branded goods are sold on a commission basis, only the commission receivable is included in statutory revenue. This adjustment reduces the value of sales recognised for statutory reporting purposes by £137.7m for the period to January 2020 (2019: £93.8m)
- Customer delivery charges, income received from printed publications, promotional discounts, Interest Free Credit commission costs and unredeemed gift card balances are included in statutory revenue (these amounts being reclassified from cost of sales). This adjustment increases the value of sales recognised for statutory reporting purposes by £42.1m for the period to January 2020 (2019: £40.3m)

As a result, Total Sales for the period to January 2020 of £4,361.8m (2019: £4,220.9m) are recognised for statutory purposes as revenue of £4,266.2m (2019: £4,167.4m). A corresponding amount has been recognised in cost of sales.

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

Leases (IFRS 16)

The accounting for leases used within pages 4 to 48 do not reflect the requirements of IFRS 16, *"Leases''*. Instead, operating leases are held off balance sheet with the lease costs recognised on a straight-line basis over the term of the lease. This is consistent with how leases were recognised on a statutory basis in prior years.

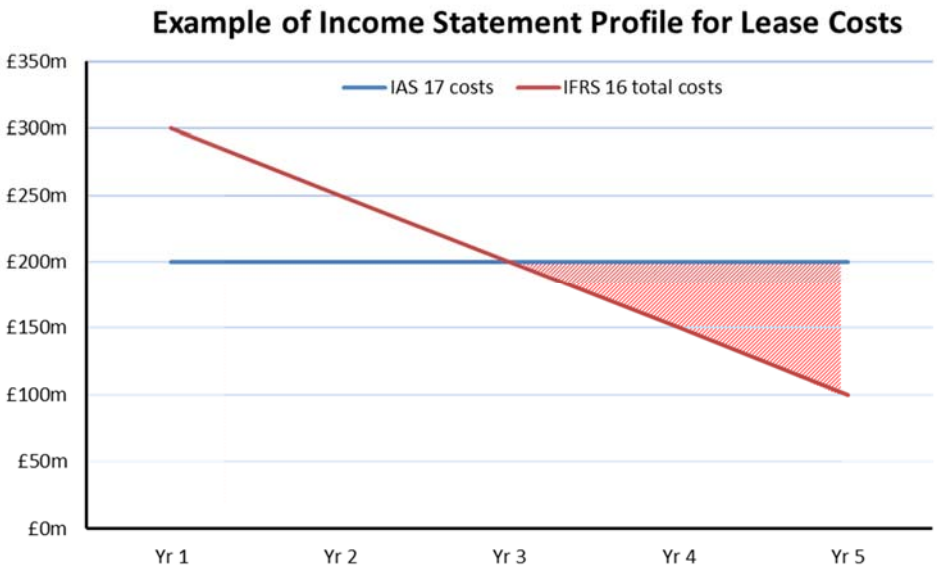
In contrast, IFRS 16 applies a single 'on balance sheet' approach to lease accounting. This is primarily achieved by:

- Recognising a right-of-use asset which represents the lessee's contractual right to use the leased asset for the lease term
- Recognising a lease liability which reflects the lessee's obligation to make payments under the terms of the lease

In this way leases previously classified as operating leases have now been included in the Balance Sheet.

Due to the changes on the Balance Sheet, the nature and timing of costs being recognised in the Income Statement also change, with depreciation being recognised on the right-of-use asset and finance costs being recognised on the lease liability. The rental costs recognised under the previous accounting standard for leases, IAS 17, are then excluded.

The impact of this change, on the timing of costs being recognised, is shown in the graph below. Note, this graph is for illustrative purposes only.



Under IFRS 16 depreciation costs on the right-of-use asset remain consistent during the lease as they are recognised on a straight-line basis.

However, finance costs recognised on a lease are typically higher in the earlier years due to the finance costs associated with a higher lease liability. This is evident in years one to three in the above graph where the total IFRS 16 cost is higher than its IAS 17 equivalent.

As the lease liability is repaid the associated finance costs reduce year-on-year. This is evident in years three to five in the above graph.

In contrast, under the previous accounting standard, the entire lease cost would be recognised on a straight-line basis over the lease term as represented by the horizontal line in the graph.

IFRS 16 – Full retrospective application

NEXT has applied the requirements of IFRS 16 on a fully retrospective basis. This means that NEXT has had to recalculate its IFRS 16 position as though it had always applied IFRS 16.

When viewed across its entire lease population, the NEXT lease portfolio is relatively mature. The retrospective application of IFRS 16 has therefore resulted in a reduction in reserves of £196.3m as at January 2018 (see note 13 of the Financial Statements). This reduction in reserves represents the costs that would have been recognised at an earlier point in the lease term under IFRS 16 compared to the previous standard, IAS 17.

While this reduction in reserves has reduced the Net Assets of NEXT it will not cause any hindrance to the distribution of dividends to shareholders.

Income Statement

Having recognised a significant portion of the lease costs directly in reserves it is expected that, where the lease portfolio is stable, the NEXT Income Statement will benefit from the recognition of lower lease costs going forward. This is evident in both the January 2020 and January 2019 Income Statement, restated for IFRS 16, see below.

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

£m	Jan 2019 excluding IFRS 16	IFRS 16 impact	Jan 2019 including IFRS 16
Profit before taxation	**722.9**	**10.7**	**733.6**
Taxation	(132.5)	(2.0)	(134.5)
Profit after taxation	**590.4**	**8.7**	**599.1**
Earnings Per Share	**435.3p**		**441.7p**

The higher profit before tax under IFRS 16 is consistent with the illustrative profile on lease costs shown on page 50 and the impact of full retrospective application of IFRS 16.

It is important to stress that while the timing and nature of costs under IFRS 16 differ to those reported under IAS 17, over the course of the lease term the overall costs remain the same.

Hence the reduction to reserves of £196.3m, and the subsequent higher profit before tax in the periods to January 2020 and January 2019, relate primarily to the timing of costs being recognised and not cash savings or improved performance under the lease contracts.

In order to present financial information on a basis consistent with how the CODM and management run the business, and to assist readers in understanding the underlying business performance, pages 4 to 48 of this report do not include the impact of IFRS 16.

Cash Flow

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

As disclosed in Note 1 of the Financial Statements, the impact of IFRS 16 on the cash flow is limited to changes in the presentation of where cash flows are reported. A summary of the changes for January 2020 is presented below which also demonstrates that the net cash position does not change.

Consequently, surplus cash as presented on page 34 remains an APM used by the business in its management of cash flows.

Cash Flow Statement

£m	Jan 2020 excluding IFRS 16	IFRS 16 impact	Jan 2020 including IFRS 16
Operating profit	**772.1**	**81.8**	**853.9**
Non-cash items and movement in working capital	(69.3)	142.6	73.3
Net Cash from investing activities	(139.1)	0.0	(139.1)
New cash from financing activities	**(544.8)**	**(224.4)**	**(769.2)**
Closing cash	**18.9**	**-**	**18.9**

Net Debt

Net debt at January 2020, excluding leases, was £1,112.1m. From a statutory reporting perspective, the adoption of IFRS 16 results in the recognition of lease debt on the Balance Sheet of £1,251.0m (2019: £1,366.3m).

£m	Jan 2020	Jan 2019	
Cash and cash equivalents	**52.9**	**34.0**	
Unsecured bank loans	(40.0)	(255.0)	
Corporate bonds	(1,163.7)	(905.2)	
Fair value hedges of bonds	38.7	30.4	
Net debt excluding leases	**(1,112.1)**	**(1,095.8)**	**- 1.5%**
Lease debt under IFRS 16	(1,251.0)	(1,366.3)	
Net debt including leases	**(2,363.1)**	**(2,462.1)**	**+4.0%**

The year on year reduction in lease debt reflects the payments made in the period and the trend towards shorter lease terms on lease renewals.

Lease Commitment Profile

On an IFRS 16 basis 50% of the lease liability (by value) will expire within the next 11 years. This differs to the lease profile on page 27 which states that 50% of the leases will expire within 4.8 years and that within the next 10 years 81% of the rental liability would have expired.
This difference is primarily due to the following factors:

- The IFRS 16 lease profile includes all lease contracts within the scope of IFRS 16 - stores, warehouses and plant and machinery. In contrast the lease commitment profile on page 27 includes store leases only
- The IFRS 16 liability includes lease terms beyond the break clause based on our expectation of how long we will remain in the lease. In contrast the lease commitment profile on page 27 only includes the commitment to expiry or break point
- The IFRS 16 lease liability is measured as the present value of future lease payments. In contrast the lease commitment on page 27 is not discounted.

UNAUDITED CONSOLIDATED INCOME STATEMENT

	52 weeks to 25 January 2020	52 weeks to 26 January 2019 Restated
	£m	£m
Continuing operations		
Revenue	**3,997.5**	3,917.1
Credit account interest	**268.7**	250.3
Total revenue (including credit account interest)	**4,266.2**	4,167.4
Cost of sales	**(2,584.2)**	(2,562.2)
Impairment losses on customer and other receivables	**(41.5)**	(52.7)
Gross profit	**1,640.5**	1,552.5
Distribution costs	**(517.0)**	(457.5)
Administrative expenses	**(267.7)**	(255.4)
Other (losses)/gains	**(1.5)**	1.4
Trading profit	**854.3**	841.0
Share of results of associates and joint venture	**(0.4)**	0.1
Operating profit	**853.9**	841.1
Finance income	**0.2**	0.4
Finance costs	**(105.6)**	(107.9)
Profit before taxation	**748.5**	733.6
Taxation	**(138.3)**	(134.5)
Profit for the year attributable to equity holders of the Parent Company	**610.2**	599.1

	52 weeks to 25 January 2020	52 weeks to 26 January 2019 Restated
Earnings per share (Note 4)		
Basic	**472.4p**	441.7p
Diluted	**468.8p**	439.3p

The Consolidated Income Statement and Earnings Per Share for the 52 weeks to 26 January 2019 have been restated to reflect the impact of IFRS 16 *"Leases"* (refer to Notes 1 and 13).

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

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	52 weeks to 25 January 2020	52 weeks to 26 January 2019 Restated
	£m	£m
Profit for the year	**610.2**	599.1
Other comprehensive income and expenses:		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension scheme	**2.8**	18.6
Tax relating to items which will not be reclassified	**(0.5)**	(3.2)
Subtotal items that will not be reclassified	**2.3**	15.4
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**2.0**	(5.3)
Foreign currency cash flow hedges:		
- fair value movements	**10.5**	73.2
Cost of hedging:		
- fair value movements	**0.1**	0.5
Tax relating to items which may be reclassified	**(2.8)**	(13.0)
Subtotal items that may be reclassified	**9.8**	55.4
Other comprehensive income for the year	**12.1**	70.8
Total comprehensive income for the year	**622.3**	669.9

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	25 January 2020 £m	26 January 2019 Restated £m
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**578.5**	564.9
Intangible assets		**44.2**	42.6
Right-of-use asset		**852.7**	943.8
Associates, joint venture and other investment		**5.0**	5.1
Defined benefit pension asset	6	**133.4**	125.0
Other financial assets	7	**48.4**	41.5
Deferred tax assets		**55.7**	41.9
		1,717.9	1,764.8
Current assets			
Inventories		**527.6**	502.8
Customer and other receivables	8	**1,315.3**	1,285.4
Right of return asset		**24.2**	23.4
Other financial assets	7	**1.7**	9.9
Cash and short term deposits		**86.6**	156.3
		1,955.4	1,977.8
Total assets		**3,673.3**	3,742.6
Current liabilities			
Bank loans and overdrafts		**(73.7)**	(377.3)
Trade payables and other liabilities	9	**(592.0)**	(596.3)
Lease liabilities		**(172.3)**	(175.6)
Other financial liabilities	7	**(32.6)**	(9.4)
Current tax liabilities		**(79.2)**	(85.1)
		(949.8)	(1,243.7)
Non-current liabilities			
Corporate bonds	10	**(1,163.7)**	(905.2)
Provisions		**(17.3)**	(15.7)
Other financial liabilities	7	**(7.8)**	(9.2)
Lease liabilities		**(1,078.7)**	(1,190.7)
Other liabilities	9	**(14.5)**	(9.1)
Deferred tax liabilities		**-**	(2.8)
		(2,282.0)	(2,132.7)
Total liabilities		**(3,231.8)**	(3,376.4)
NET ASSETS		**441.5**	366.2
TOTAL EQUITY		**441.5**	366.2

The January 2019 Balance Sheet has been restated to reflect the impact of IFRS 16 "*Leases*" (Refer to Notes 1 and 13).

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	ESOT reserve £m	Cash flow hedge reserve £m	Foreign currency translation £m	Cost of hedging reserve £m	Other reserves £m	Retained earnings Restated £m	Total equity Restated £m
At 27 January 2018	**14.5**	**0.9**	**15.4**	**(231.6)**	**(42.9)**	**3.3**	-	**(1,443.8)**	**1,970.5**	**286.3**
Profit for the year	-	-	-	-	-	-	-	-	599.1	**599.1**
Other comprehensive income/(expense) for the year	-	-	-	-	60.3	(5.3)	0.4	-	15.4	**70.8**
Total comprehensive income/(expense) for the year	-	-	-	-	60.3	(5.3)	0.4	-	614.5	**669.9**
Share buybacks and commitments	(0.6)	-	0.6	-	-	-	-	-	(324.2)	**(324.2)**
ESOT share purchases and commitments	-	-	-	(61.9)	-	-	-	-	-	**(61.9)**
Shares issued by ESOT	-	-	-	21.9	-	-	-	-	(6.6)	**15.3**
Share option charge	-	-	-	-	-	-	-	-	13.8	**13.8**
Reclassified to cost of inventory	-	-	-	-	(21.0)	-	-	-	-	**(21.0)**
Tax recognised directly in equity	-	-	-	-	4.0	-	-	-	(0.3)	**3.7**
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	(215.7)	**(215.7)**
At 26 January 2019	**13.9**	**0.9**	**16.0**	**(271.6)**	**0.4**	**(2.0)**	**0.4**	**(1,443.8)**	**2,052.0**	**366.2**
Profit for the year	-	-	-	-	-	-	-	-	610.2	**610.2**
Other comprehensive income for the year	-	-	-	-	7.7	2.0	0.1	-	2.3	**12.1**
Total comprehensive income for the year	-	-	-	-	7.7	2.0	0.1	-	612.5	**622.3**
Share buybacks and commitments	(0.6)	-	0.6	-	-	-	-	-	(300.2)	**(300.2)**
ESOT share purchases and commitments	-	-	-	(94.2)	-	-	-	-	-	**(94.2)**
Shares issued by ESOT	-	-	-	80.9	-	-	-	-	(15.4)	**65.5**
Share option charge	-	-	-	-	-	-	-	-	14.7	**14.7**
Reclassified to cost of inventory	-	-	-	-	(40.5)	-	-	-	-	**(40.5)**
Tax recognised directly in equity	-	-	-	-	7.7	-	-	-	13.6	**21.3**
Equity dividends (Note 5)	-	-	-	-	-	-	-	-	(213.6)	**(213.6)**
At 25 January 2020	**13.3**	**0.9**	**16.6**	**(284.9)**	**(24.7)**	-	**0.5**	**(1,443.8)**	**2,163.6**	**441.5**

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	52 weeks to 25 January 2020	52 weeks to 26 January 2019 Restated
	£m	£m
Cash flows from operating activities		
Operating profit	**853.9**	841.1
Depreciation, impairment and loss on disposal of property, plant and equipment	**124.9**	122.3
Depreciation on right-of-use asset and gains on exit of leases	**138.1**	138.0
Amortisation of intangible assets	**-**	0.3
Share option charge	**14.7**	13.8
Share of loss of associate	**0.1**	-
Exchange movement	**1.7**	(4.3)
Increase in inventories and right of return asset	**(25.6)**	(36.2)
Increase in customer and other receivables	**(34.0)**	(97.6)
(Decrease)/increase in trade and other payables	**(3.3)**	35.8
Net pension contributions less income statement charge	**(5.3)**	(0.2)
Cash generated from operations	**1,065.2**	1,013.0
Corporation taxes paid	**(138.0)**	(144.2)
Net cash from operating activities	**927.2**	868.8
Cash flows from investing activities		
Additions to property, plant and equipment	**(138.8)**	(128.6)
Movement in capital accruals	**2.4**	5.4
Payments to acquire property, plant and equipment	**(136.4)**	(123.2)
Proceeds from sale of property, plant and equipment	**0.3**	0.3
Purchase of shares in associate	**-**	(3.0)
Purchase of subsidiary	**(3.0)**	-
Net cash from investing activities	**(139.1)**	(125.9)
Cash flows from financing activities		
Repurchase of own shares	**(300.2)**	(325.0)
Purchase of shares by ESOT	**(94.2)**	(61.9)
Disposal of shares by ESOT	**66.9**	15.8
(Repayment)/proceeds from unsecured bank loans	**(215.0)**	120.0
Issue of corporate bonds	**250.2**	-
Lease repayment	**(162.6)**	(146.1)
Interest paid	**(100.9)**	(105.7)
Interest received	**0.2**	0.2
Dividends paid (Note 5)	**(213.6)**	(215.7)
Net cash from financing activities	**(769.2)**	(718.4)
Net increase in cash and cash equivalents	**18.9**	24.5
Opening cash and cash equivalents	**34.0**	8.5
Effect of exchange rate fluctuations on cash held	**-**	1.0
Closing cash and cash equivalents (Note 12)	**52.9**	34.0

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The results for the financial year are for the 52 weeks to 25 January 2020 (last year 52 weeks to 26 January 2019).

The condensed consolidated financial statements for the year ended 25 January 2020 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and in accordance with the accounting policies set out in the NEXT plc Annual Report and Accounts for the year ended 26 January 2019.

The condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Company within the meaning of Section 434(3) of the Companies Act 2006. Statutory accounts for the year to 26 January 2019 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

New accounting standards, interpretations and amendments adopted by the Group
The accounting policies adopted in the preparation of the condensed consolidated financial statements are the same as those set out in the Group's annual financial statements for the 52 weeks ended 26 January 2019, except for the adoption of new standards as set out below.

For the financial period ended 25 January 2020 the Group has adopted IFRS 16 "*Leases*" for the first time. The nature and effect of this change is disclosed below and in note 13. Several other amendments and interpretations have been applied for the first time in 2020, but do not have an impact on the financial statements of the Group.

IFRS 16 *"Leases"*
IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. The Group applied IFRS 16 retrospectively, restating prior year comparatives. It applied the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short term and low value leases.

Impact to financial statements
Restating the 2018/19 financial statements upon transition, NEXT recognised an opening right-of-use asset of £948.9m and a lease liability of £1,379.6m. Including adjustments for working capital which existed under IAS 17, the retained earnings of the Group on transition reduced by £196.3m. This adjustment did not cause any hindrance to the distribution of dividends to shareholders.

The opening right-of-use asset is lower than the opening lease liability as it includes lease incentives received and reflects the higher depreciation of the right-of-use asset compared to the reduction on the lease liability and accrued interest over the same period of time.

1. Basis of preparation (continued)

The Income Statement reflected an increase to profit before taxation for the year ending January 2020 of £20.0m (2019: £10.7m). Operating profit increased by £81.8m (2019: £79.1m) as the depreciation on right-of-use assets was lower than the IAS 17 rental charge. Interest costs charged to the Income Statement increased by £61.8m (2019: £68.4m) with the addition of higher finance costs on the newly recognised lease liability. The adoption of IFRS 16 did not impact the Group's effective tax rate.

There was no impact on cash flows, although the presentation of the Cash Flow Statement changed significantly, with an increase in net cash inflows from operating activities offset by an increase in net cash outflows from financing activities. Disclosure of the transitional impact on adoption of IFRS 16 is presented in Note 13.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the condensed consolidated financial statements of the Group.

Going concern

The directors report that, having reviewed current performance and forecasts, including specific consideration of the potential risks associated with the Coronavirus, they have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. See the Chief Executive's Review for further details on the specific reviews undertaken in relation to the Coronavirus.

For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

2. Segmental analysis

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

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

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

During the financial year to 25 January 2020, the CODM has altered the internal reporting of finance costs allocated to NEXT Finance. The NEXT Finance segment revenue represents the interest charged to customers on their credit account balance. Previously the customer receivables were treated as being fully funded by external debt. Following a review of this allocation it was decided to treat these as being 85% funded through debt. Consequently an allocation of finance costs was made on this basis. This allocation better reflects the utilisation of funds across the business. The impact of this change has increased the NEXT Finance profit by £6.4m (2019: £6.1m) but had no impact on overall Group profit. Further details on the Finance cost of funding are provided in the Chief Executive's Review.

Segment sales and revenue

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

2. Segmental analysis (continued)

Segment sales and revenue

52 weeks to 26 January 2019	Total sales excluding VAT £m	Commission sales adjustment £m	IFRS 15 adjustments £m	External revenue £m	Internal revenue £m	Total segment revenue £m
NEXT Online	1,918.8	(92.5)	38.3	1,864.6	-	1,864.6
NEXT Retail	1,955.1	(1.2)	2.0	1,955.9	4.6	1,960.5
NEXT Finance	250.3	-	-	250.3	-	250.3
NEXT International Retail	62.2	-	-	62.2	-	62.2
NEXT Sourcing	6.9	-	-	6.9	543.2	550.1
	4,193.3	(93.7)	40.3	4,139.9	547.8	4,687.7
Lipsy	15.1	(0.1)	-	15.0	80.4	95.4
Property Management	12.5	-	-	12.5	202.9	215.4
Total segment sales/revenues	4,220.9	(93.8)	40.3	4,167.4	831.1	4,998.5
Eliminations	-	-	-	-	(831.1)	(831.1)
Total	4,220.9	(93.8)	40.3	4,167.4	-	4,167.4

2. Segmental analysis (continued)

The view of segment profits used by the CODM does not include the impact of IFRS 16 because the IFRS 16 profit before tax is not used in internal reporting. The prior year segment profit results have been restated for the change in the allocation of finance costs to NEXT Finance.

Segment profit	**52 weeks to 25 January 2020 £m**	52 weeks to 26 January 2019 Restated £m
NEXT Online	**399.6**	352.6
NEXT Retail	**163.9**	212.3
NEXT Finance	**146.7**	127.3
NEXT International Retail	**6.2**	6.2
NEXT Sourcing	**32.0**	29.6
	748.4	728.0
Lipsy	**13.0**	11.0
Property Management	**(2.2)**	6.7
Total segment profit	**759.2**	745.7
Central costs and other	**(6.8)**	(5.4)
Recharge of interest to NEXT Finance	**36.3**	34.0
Share option charge	**(14.7)**	(13.8)
Other (losses)/gains	**(1.5)**	1.4
Trading profit	**772.5**	761.9
Share of results of associates and joint venture	**(0.4)**	0.1
Finance income	**0.2**	0.4
Finance costs	**(43.8)**	(39.5)
Profit before tax excluding IFRS 16	**728.5**	722.9
IFRS 16	**20.0**	10.7
Profit before tax including IFRS 16	**748.5**	733.6

3. Revenue

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

52 weeks to 25 January 2020

	Sale of goods £m	**Credit account interest £m**	**Royalties £m**	**Rental income £m**	**Total £m**
NEXT Online	**2,054.7**	**-**	**-**	**-**	**2,054.7**
NEXT Retail	**1,848.2**	**-**	**-**	**-**	**1,848.2**
NEXT Finance	**-**	**268.7**	**-**	**-**	**268.7**
NEXT International Retail	**51.6**	**-**	**5.3**	**-**	**56.9**
NEXT Sourcing	**9.5**	**-**	**-**	**-**	**9.5**
Lipsy	**10.8**	**-**	**2.3**	**-**	**13.1**
Property Management	**-**	**-**	**-**	**15.1**	**15.1**
Total	**3,974.8**	**268.7**	**7.6**	**15.1**	**4,266.2**

52 weeks to 26 January 2019

	Sale of goods £m	Credit account interest £m	Royalties £m	Rental income £m	Total £m
NEXT Online	1,864.6	-	-	-	1,864.6
NEXT Retail	1,955.9	-	-	-	1,955.9
NEXT Finance	-	250.3	-	-	250.3
NEXT International Retail	56.7	-	5.5	-	62.2
NEXT Sourcing	6.9	-	-	-	6.9
Lipsy	12.9	-	2.1	-	15.0
Property Management	-	-	-	12.5	12.5
Total	**3,897.0**	**250.3**	**7.6**	**12.5**	**4,167.4**

4. Earnings Per Share

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

	2020 including IFRS 16	2019 including IFRS 16	**2020 excluding IFRS 16**	2019 excluding IFRS 16
Basic Earnings Per Share	**472.4p**	441.7p	**459.8p**	435.3p

Diluted Earnings Per Share is calculated by adjusting the weighted average number of shares used for the calculation of basic Earnings Per Share as increased by the dilutive effect of potential ordinary shares. Dilutive shares arise from employee share option schemes where the exercise price is less than the average market price of the Company's ordinary shares during the period. Their dilutive effect is calculated on the basis of the equivalent number of nil cost options. Where the option price is above the average market price, the option is not dilutive and is excluded from the diluted EPS calculation. There were 2,424,915 non-dilutive share options in the current year (2019: 3,508,782).

	2020 including IFRS 16	2019 including IFRS 16	**2020 excluding IFRS 16**	2019 excluding IFRS 16
Diluted Earnings Per Share	**468.8p**	439.3p	**456.3p**	433.0p

5. Dividends

Year to 25 January 2020

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

Year to 26 January 2019

	Paid	**Pence per share**	**Cash Flow Statement £m**	**Statement of Changes in Equity £m**
Final ordinary dividend for the year to Jan 2018	1 Aug 2018	105p	141.9	141.9
Interim ordinary dividend for the year to Jan 2019	2 Jan 2019	55p	73.8	73.8
			215.7	215.7

6. Defined benefit pension

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

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

	52 weeks to 25 January 2020 £m	52 weeks to 26 January 2019 £m
Surplus in schemes at the beginning of the period	**125.0**	106.2
Current service cost	**(6.0)**	(8.2)
Guaranteed Minimum Pension equalisation	**-**	(0.4)
Administration costs	**(2.4)**	(1.9)
Net interest	**3.7**	2.8
Employer contributions	**7.3**	7.8
Actuarial gains and return on plan assets	**5.8**	18.7
Surplus in schemes at the end of the period	**133.4**	125.0

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

	52 weeks to 25 January 2020	52 weeks to 26 January 2019
Discount rate	**1.75%**	2.90%
Inflation – RPI	**2.80%**	3.15%
Inflation – CPI	**1.90%**	2.15%
Salary increases	**-**	-
Pension increases in payment		
- RPI with a maximum of 5%	**2.75%**	2.95%
- RPI with a maximum of 2.5% and discretionary increases	**1.90%**	2.05%

7. Other financial assets and liabilities

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

8. Customer and other receivables

The following table shows the components of net receivables:

	25 January 2020	26 January 2019 Restated
	£m	£m
Gross customer receivables	**1,455.5**	1,417.2
Less: refund liabilities	**(49.9)**	(44.5)
Net customer receivables	**1,405.6**	1,372.7
Less: allowance for expected credit losses	**(171.5)**	(165.5)
	1,234.1	1,207.2
Other trade receivables	**26.4**	23.8
Less: allowance for expected credit losses	**(0.5)**	(0.5)
	1,260.0	1,230.5

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

Net customer receivables	**1,405.6**	1,372.7
Other trade receivables	**26.4**	23.8
	1,432.0	1,396.5
Less: allowance for expected credit losses	**(172.0)**	(166.0)
	1,260.0	1,230.5
Prepayments	**38.8**	37.2
Other debtors	**13.3**	14.7
Amounts due from associate and joint venture	**3.2**	3.0
	1,315.3	1,285.4

No interest is charged on customer receivables if the statement balance is paid in full and to terms; otherwise balances bear interest at a variable annual percentage rate of 23.9% (2019: 23.9%) at the year-end date, except for £6.0m (2019: £3.1m) of next**3step** balance that bears interest at 29.9% (2019: 29.9%).

The fair value of customer receivables and other trade receivables is approximately £1,200m (2019: £1,170m). This has been calculated based on future cash flows discounted at an appropriate rate for the risk of the debt. The fair value is within Level 3 of the fair value hierarchy.

9. Trade payables and other liabilities

	25 January 2020		26 January 2019 Restated	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Trade payables	**212.8**	–	209.4	–
Refund liabilities	**5.4**	–	6.2	–
Other taxation and social security	**73.4**	–	68.3	–
Deferred revenue from sale of gift cards	**74.9**	–	75.4	–
Share-based payment liability	**0.2**	**0.2**	0.2	0.2
Other creditors and accruals	**225.3**	**14.3**	236.8	8.9
	592.0	**14.5**	596.3	9.1

10. Corporate bonds

	Balance sheet value		Nominal value	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Corporate bond 5.375% repayable 2021	**327.0**	327.5	**325.0**	325.0
Corporate bond 3.000% repayable 2025	**250.0**	-	**250.0**	-
Corporate bond 4.375% repayable 2026	**286.7**	277.7	**250.0**	250.0
Corporate bond 3.625% repayable 2028	**300.0**	300.0	**300.0**	300.0
	1,163.7	905.2	**1,125.0**	875.0

During the year the Group issued a new Corporate bond which has a nominal value of £250.0m.

11. Share buybacks

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

	2020 Shares '000	**2020 Cost £m**	2019 Shares '000	2019 Cost £m
Shares in issue at start of year	**138,606**	**13.9**	144,882	14.5
Shares purchased for cancellation in the year	**(5,377)**	**(0.6)**	(6,276)	(0.6)
Shares in issue at end of year	**133,229**	**13.3**	138,606	13.9

The total cost of shares purchased for cancellation as shown in the Statement of Changes in Equity was £300.2m (2019: £324.2m).

12. Analysis of net debt

	January 2019 £m	Cash flow £m	Other non-cash changes: Fair value changes £m	Other non-cash changes: IFRS 16 £m	**January 2020 £m**
Cash and short term deposits	156.3				**86.6**
Overdrafts and short term borrowings	(122.3)				**(33.7)**
Cash and cash equivalents	34.0	18.9	-	-	**52.9**
Unsecured bank loans	(255.0)	215.0	-	-	**(40.0)**
Corporate bonds	(905.2)	(250.2)	(8.3)	-	**(1,163.7)**
Fair value hedges of corporate bonds	30.4	-	8.3	-	**38.7**
Net debt excluding leases	(1,095.8)	(16.3)	-	-	**(1,112.1)**
Current lease liability	(175.6)	224.4	-	(221.1)	**(172.3)**
Non-current lease liability	(1,190.7)	-	-	112.0	**(1,078.7)**
	(1,366.3)	224.4	-	(109.1)	**(1,251.0)**
Net debt including leases	**(2,462.1)**	**208.1**	**-**	**(109.1)**	**(2,363.1)**

13. IFRS 16 transition note

Impact on profit for the period	Notes	52 weeks to 25 January 2020 Excluding IFRS 16 £m	Adjustments on adoption of IFRS 16 £m	**52 weeks to 25 January 2020 £m**
Total revenue		4,266.2	-	**4,266.2**
Cost of sales	(i)	(2,706.7)	81.0	**(2,625.7)**
Gross profit		1,559.5	81.0	**1,640.5**
Distribution costs		(517.8)	0.8	**(517.0)**
Administrative costs		(267.7)	-	**(267.7)**
Other losses		(1.5)	-	**(1.5)**
Trading profit		772.5	81.8	**854.3**
Share of results of associates and joint venture		(0.4)	-	**(0.4)**
Operating profit		772.1	81.8	**853.9**
Finance income		0.2	-	**0.2**
Finance costs	(i)	(43.8)	(61.8)	**(105.6)**
Profit before taxation		728.5	20.0	**748.5**
Taxation	(v)	(134.6)	(3.7)	**(138.3)**
Profit attributable to equity holders		593.9	16.3	**610.2**

13. IFRS 16 transition note (continued)

Impact on profit for the period		52 weeks to 26 January 2019 Excluding IFRS 16 £m	Adjustments on adoption of IFRS 16 £m	**52 weeks to 26 January 2019 Restated £m**
Total revenue		4,167.4	-	**4,167.4**
Cost of sales	(i)	(2,693.2)	78.3	**(2,614.9)**
Gross profit		1,474.2	78.3	**1,552.5**
Distribution costs		(458.3)	0.8	**(457.5)**
Administrative costs		(255.4)	-	**(255.4)**
Other gains		1.4	-	**1.4**
Trading profit		761.9	79.1	**841.0**
Share of results of associates and joint venture		0.1	-	**0.1**
Operating profit		762.0	79.1	**841.1**
Finance income		0.4	-	**0.4**
Finance costs	(i)	(39.5)	(68.4)	**(107.9)**
Profit before taxation		722.9	10.7	**733.6**
Taxation	(v)	(132.5)	(2.0)	**(134.5)**
Profit attributable to equity holders		590.4	8.7	**599.1**

13. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 25 January 2020

	Notes	25 January 2020 £m	IFRS 16 Adjustment £m	**25 January 2020 £m**
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		578.5	-	**578.5**
Intangible assets		44.2	-	**44.2**
Right-of-use asset	(ii)	-	852.7	**852.7**
Associates, joint venture and other investment		5.0	-	**5.0**
Defined benefit pension asset		133.4	-	**133.4**
Other financial assets		48.4	-	**48.4**
Deferred tax assets	(v)	17.5	38.2	**55.7**
		827.0	890.9	**1,717.9**
Current assets				
Inventories		527.6	-	**527.6**
Customer and other receivables	(iv)	1,367.9	(52.6)	**1,315.3**
Right of return asset		24.2	-	**24.2**
Other financial assets		1.7	-	**1.7**
Cash and short term deposits		86.6	-	**86.6**
		2,008.0	(52.6)	**1,955.4**
Total assets		2,835.0	838.3	**3,673.3**
Current liabilities				
Bank loans and overdrafts		(73.7)	-	**(73.7)**
Trade payables and other liabilities	(iv)	(640.6)	48.6	**(592.0)**
Lease liabilities	(iii)	-	(172.3)	**(172.3)**
Other financial liabilities		(32.6)	-	**(32.6)**
Current tax liabilities		(79.2)	-	**(79.2)**
		(826.1)	(123.7)	**(949.8)**
Non-current liabilities				
Corporate bonds		(1,163.7)	-	**(1,163.7)**
Provisions	(iv)	(12.4)	(4.9)	**(17.3)**
Other financial liabilities		(7.8)	-	**(7.8)**
Lease liabilities	(iii)	-	(1,078.7)	**(1,078.7)**
Other liabilities	(iv)	(212.1)	197.6	**(14.5)**
Deferred tax liabilities		-	-	**-**
		(1,396.0)	(886.0)	**(2,282.0)**
Total liabilities		(2,222.1)	(1,009.7)	**(3,231.8)**
NET ASSETS		612.9	(171.4)	**441.5**
TOTAL EQUITY		612.9	(171.4)	**441.5**

13. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 26 January 2019

	Notes	26 January 2019 £m	IFRS 16 Adjustment £m	**26 January 2019 Restated £m**
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		564.9	-	**564.9**
Intangible assets		42.6	-	**42.6**
Right-of-use asset	(ii)	-	943.8	**943.8**
Associates, joint venture and other investment		5.1	-	**5.1**
Defined benefit pension asset		125.0	-	**125.0**
Other financial assets		41.5	-	**41.5**
Deferred tax assets	(v)	-	41.9	**41.9**
		779.1	985.7	**1,764.8**
Current assets				
Inventories		502.8	-	**502.8**
Customer and other receivables	(iv)	1,339.8	(54.4)	**1,285.4**
Right of return asset		23.4	-	**23.4**
Other financial assets		9.9	-	**9.9**
Cash and short term deposits		156.3	-	**156.3**
		2,032.2	(54.4)	**1,977.8**
Total assets		2,811.3	931.3	**3,742.6**
Current liabilities				
Bank loans and overdrafts		(377.3)	-	**(377.3)**
Trade payables and other liabilities	(iv)	(640.7)	44.4	**(596.3)**
Lease liabilities	(iii)	-	(175.6)	**(175.6)**
Other financial liabilities		(9.4)	-	**(9.4)**
Current tax liabilities		(85.1)	-	**(85.1)**
		(1,112.5)	(131.2)	**(1,243.7)**
Non-current liabilities				
Corporate bonds		(905.2)	-	**(905.2)**
Provisions	(iv)	(10.3)	(5.4)	**(15.7)**
Other financial liabilities		(9.2)	-	**(9.2)**
Lease liabilities	(iii)	-	(1,190.7)	**(1,190.7)**
Other liabilities	(iv)	(217.5)	208.4	**(9.1)**
Deferred tax liabilities		(2.8)	-	**(2.8)**
		(1,145.0)	(987.7)	**(2,132.7)**
Total liabilities		(2,257.5)	(1,118.9)	**(3,376.4)**
NET ASSETS		553.8	(187.6)	**366.2**
TOTAL EQUITY		553.8	(187.6)	**366.2**

13. IFRS 16 transition note (continued)

Impact on net assets and retained earnings as at 27 January 2018

	Notes	27 January 2018 £m	IFRS 16 Adjustment £m	**27 January 2018 Restated £m**
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment		558.9	-	**558.9**
Intangible assets		42.9	-	**42.9**
Right-of-use asset	(ii)	-	948.9	**948.9**
Associates, joint venture and other investment		2.1	-	**2.1**
Defined benefit pension asset		106.2	-	**106.2**
Other financial assets		48.1	-	**48.1**
Deferred tax assets	(v)	5.8	44.0	**49.8**
		764.0	992.9	**1,756.9**
Current assets				
Inventories		466.7	-	**466.7**
Customer and other receivables	(iv)	1,248.2	(55.7)	**1,192.5**
Right of return asset		23.4	-	**23.4**
Other financial assets		5.7	-	**5.7**
Cash and short term deposits		53.5	-	**53.5**
		1,797.5	(55.7)	**1,741.8**
Total assets		2,561.5	937.2	**3,498.7**
Current liabilities				
Bank loans and overdrafts		(180.0)	-	**(180.0)**
Trade payables and other liabilities	(iv)	(580.2)	39.9	**(540.3)**
Lease liabilities	(iii)	-	(165.8)	**(165.8)**
Other financial liabilities		(59.3)	-	**(59.3)**
Current tax liabilities		(95.3)	-	**(95.3)**
		(914.8)	(125.9)	**(1,040.7)**
Non-current liabilities				
Corporate bonds		(908.5)	-	**(908.5)**
Provisions	(iv)	(10.4)	(6.7)	**(17.1)**
Other financial liabilities		(12.4)	-	**(12.4)**
Lease liabilities	(iii)	-	(1,213.8)	**(1,213.8)**
Other liabilities	(iv)	(232.8)	212.9	**(19.9)**
		(1,164.1)	(1,007.6)	**(2,171.7)**
Total liabilities		(2,078.9)	(1,133.5)	**(3,212.4)**
NET ASSETS		482.6	(196.3)	**286.3**
TOTAL EQUITY		482.6	(196.3)	**286.3**

13. IFRS 16 transition note (continued)

(i) **Income Statement**

Under the previous accounting standard for leases, IAS 17, lease costs were recognised on straight line basis over the term of the lease. The Group recognised these costs within cost of sales and distribution costs.

On adoption of IFRS 16 these costs have been removed and replaced with costs calculated on an IFRS 16 basis. The impact of removing these costs on the January 2020 Income Statement was £222.1m (2019: £217.1m).

Under IFRS 16 the right-of-use asset is depreciated over the lease term. The Group has recognised the depreciation costs on the right-of-use asset in cost of sales. The impact of this adjustment in the January 2020 Income Statement was £140.3m (2019: £138.0m).

The costs under IAS 17 were higher than the depreciation costs recognised under IFRS 16 which has resulted in a net credit under IFRS 16 to cost of sales and distribution costs. The net impact of this adjustment in the January 2020 Income Statement was £81.8m (2019: £79.1m).

Under IFRS 16 finance costs are charged on the lease liability recognised. These costs are recognised within finance costs. The impact of this adjustment on the January 2020 Income Statement was £61.8m (2019: £68.4m).

The net impact of the above adjustments to the January 2020 profit before tax was £20.0m (2019: £10.7m).

(ii) **Right-of-use asset**

IFRS 16 has resulted in the recognition of a right-of-use asset. This asset represents the Group's contractual right to access an identified asset under the terms of the lease contract.

(iii) **Lease liability**

IFRS 16 has resulted in the recognition of a lease liability. This liability represents the Group's contractual obligation to minimum lease payments during the lease term.

The element of the liability payable in next 12 months is recognised as a current liability with the balance recognised in non-current liabilities.

(iv) **Working capital**

Under IAS 17 certain lease incentives, rent prepayments, accruals and similar amounts were held on the balance sheet as part of working capital. Such balances are no longer recognised as all payments, lease incentives and related costs are reflected in either the right-of-use asset or the lease liability.

(v) **Taxation**

A deferred tax asset has been recognised on the transition to IFRS 16 representing the timing difference on the amounts taken to reserves. The deferred tax asset created at the point of transition will unwind over the life of the leases held at the date of transition.

14. AGM

The Annual General Meeting will be held at the Leicester Marriott Hotel, Smith Way, Grove Park, Leicester, LE19 1SW on Thursday 14 May 2020. The Annual Report and Accounts will be sent to shareholders on 14 April 2020 and copies will be available from the Company's registered office: Desford Road, Enderby, Leicester, LE19 4AT and on our corporate website at nextplc.co.uk.

This statement, the full text of the Stock Exchange announcement and the results presentation can be found on the Company's website at nextplc.co.uk.

To view our range of exciting, beautifully designed, excellent quality clothing and homeware go to next.co.uk.

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