

## N Brown H1 FY 20 Results

### **Steve Johnson:**

Good morning everybody and thank you for coming to our half year results presentation for the 6 months ended 31 August 2019.

Today I'm joined by Craig Lovelace our CFO who you all know well.

I'm delighted to be here today to update you on the progress we have made in the first six months of our new strategy.

We are building great foundations and we have a significant opportunity as a customer centric fashion retailer.

The running order this morning is as follows: First, I'll run through the highlights of the half; following this, Craig will take you through the financial performance in detail, I'll then provide a review of the half and update you on the good progress we have made with our new strategy.

I am pleased with the progress we have made in the first six months of our new strategy. There is a lot of activity going on in the business which I will talk about in more detail shortly.

As a result of our new strategy we saw digital growth of 5% in our 4 Womenswear and Menswear brands and 84% of our product revenue is now digital.

We have taken a disciplined and sustainable approach to operating costs and they were down 9.5% in the half.

Our focus on profitable, digital growth delivered a 4% increase in EBITDA to £54.1 million.

And I'm pleased to report a 3.9% growth in adjusted profit before tax to £31.8 million and a return to reporting a statutory profit before tax.

I am now going to hand you over to Craig who will walk you through the financials.

### **Craig Lovelace:**

Thank you, Steve.

In line with our strategy of scaling back unprofitable marketing and recruitment, group revenue declined 5.4% to £432.9 million in the half. Product revenue, excluding stores and USA, was down 6.2% and financial services increased by 2.9%. Let me talk you through the component parts.

Product revenue was £282.3m - reflecting a continued shift in focus to UK digital growth, away from our unprofitable offline and USA business, the year on year impact of the closure of stores and ongoing challenging market conditions.

We saw good growth in our digital revenue and Steve will talk to you more about that later in the presentation.

Financial services revenue delivered a good performance, the revenue was lower in the second quarter than the first quarter as a result of proactive measures undertaken on the implementation of credit limit increases and affordability assessments.

This slide shows you more detail on the movements in gross profit.

Product gross margin was down 190 basis points to 51.5%. This was impacted by:

- the highly promotional market
- a shift in our revenue mix away from our higher margin USA business
- growth of our lower margin partnerships strategy
- no store revenue

Financial Services gross margin improved by 140 basis points to 57.4% driven by the continued improvement in the quality of the loan book.

This meant the Group's gross margin was 53.5%, down 70 basis points compared to H1 last year.

Let me talk you through the EBITDA improvement in the half.

Starting from the left. H1 FY19 adjusted EBITDA was £52 million.

Financial Services' solid performance continued, delivering £4.5 million of additional gross profit.

Product gross profit was down £21 million, largely due to the managed ongoing decline of the offline business.

The decline was broadly offset by an £18.6 million improvement in operating efficiency.

This meant that our adjusted EBITDA grew by £2.1 million or to £54.1 million.

Turning to operating expenses:

We continue to be disciplined with our control of operating expenditure.

- Warehouse and fulfilment costs were 5.9% lower at £39.9m, reflecting lower product volumes and continued operating efficiencies.
- Marketing and production costs decreased by 7.1% as we continued to shift our marketing spend away from our legacy offline business.
- Admin and payroll costs were down by 14.5% and I will explore this saving in further detail on the next slide.

Our adjusted EBITDA margin increased by 110 basis points to 12.5% in the half.

Depreciation and amortisation fell slightly to £14.4m, meaning that operating profit before exceptional items and unrealised FX movement was up 7.0% to £39.7m.

As a result, operating margin increased by 110 basis points to 9.2%.

As discussed, our total operating expenses have fallen by 9.5% compared to H1 FY19.

Out of the £18.6m reduction, £8.5m of this relates to the impact of USA and Stores.

Therefore, our core operating expenses have fallen 6.0% half on half, with this driven primarily through sustainable efficiencies within our administrative cost base.

We have achieved this cost reduction whilst absorbing a c.£4m cost from the VAT partial exemption ruling announced in November 2018.

Turning to group profit.

Net finance costs were £7.9 million, an increase of £1.4 million, as a result of the Group's increased debt. Therefore, adjusted PBT increased 3.9% to £31.8 million.

We have delivered a statutory profit before tax in the half of £18.8 million which was driven by £12.0m of fair value FX adjustments due to the devaluation of sterling, offset by exceptional items totalling £25 million.

As previously announced, in line with the wider industry we experienced a significant increase in the number of PPI claims in the run up to the 29<sup>th</sup> August deadline and as a result, we have made a further provision of £25m.

The deadline has now passed, and we are processing the remaining claims. All remaining claims will be cash settled in the second half of this financial year.

These financial redress provisions; coupled with legacy tax costs which we have an agreement in principle or have settled, will have contributed to an exceptional cash outflow of c.£200 million over the last five years.

From left to the right, this slide shows the movement in Group debt and core debt. Given the significant majority of the Group's debt is securitised on its loan book, which is non-recourse to the company, this is a more appropriate way of showing our debt position.

We generated an underlying cash flow of £42.5 million.

Capex was £21.9 million, we paid dividends of just over £12 million, finance costs of £8.1m and tax of £1.3m.

Cash paid out on exceptional items was £12.8m resulting in net debt at end of the period at £482m.

Core debt, that is the utilisation of our RCF plus cash, was £67.5 million, down £10.2m to year end. This means the Group's leverage is 0.5x on a last 12-month EBITDA/net debt basis, given it excludes the securitised debt and associated interest.

In line with our hedging policy, we are fully hedged for the rest of FY20, at a rate of \$1.36.

Moving into FY21 we have hedged 69% of our US dollar requirements at a blended rate of \$1.32.

We are appropriately hedged, in line with Board policy and we believe that we are solidly placed to mitigate any potential short-term impact of currency volatility.

Total gross debtors fell by 2.9% to £658m.

At half year end our bad debt provision was £78.2 million compared to £111.9m at H1 FY19, down 30.1%. This has been driven by an underlying improvement in the profile of the book.

Our impairment rate has fallen to 11.9%. This represents a 230 basis point reduction from the previous financial year and a 460 basis point reduction compared to H1 FY19.

As a result of the improvement in the bad debt provision our net customer loan balances have increased 2.5% versus the comparable period last year.

Arrears rates fell in the period from 9.7% to 9.0% as a result of the continued improvement in the quality of the book and our disciplined approach to credit risk.

Let me now go through some of the initiatives we have recently launched.

Year on year we have successfully recruited a greater number of new credit accounts through continued innovation.

We launched a 6-month introductory 0% interest offer in spring, alongside lower headline rates and a discount for opening a credit account across Simply Be, Jacamo and JD Williams.

There was also an initiative launched to offer larger initial limits of up to £850 to lower risk customers, who pass our enhanced creditworthiness assessment process. This was part of a campaign to support the sale of higher value items.

Early signs for both are encouraging.

As I highlighted in May, we undertook a successful trial to unlock opportunity to use new data and analytics to lend to more customers and prevent financial harm. I am pleased to say we are partnering with a leading fintech company, Aire and this is now live.

Finally, to give you an update on our guidance for this financial year.

We have changed the range for Product gross margin from:

- 'flat to down 100 basis points' to
- 'down 50 basis points to down 150 basis points'.

This primarily reflects the increasingly competitive market and the impact that will have on our discounting levels.

The range for Financial Services gross margin has also been revised. We now expect a range of flat to +100 basis points as we have seen an improvement in our underlying impairment rates.

Group operating costs are now expected to be down 3.5% to 5.5% mainly due to continued disciplined cost control, and in particular, further maximising embedded efficiencies.

Net interest is slightly up, to £18million to £19million driven by cash outflows associated with the spike in customer redress payments and the resulting impact on net debt.

There is no change to our tax, depreciation or capex guidance.

Finally, FY20 net debt is expected to be in the range of £470million to £490million with the increase driven by the previously announced increase in customer redress payments.

That's it from me. Now over to Steve.

**Steve Johnson:**

Thank you, Craig.

We have continued the acceleration in the business's transition as we focus on our profitable customers and dial back unprofitable offline marketing and recruitment.

This strategy has driven an increase in digital revenue in the half and an increase in profit.

You can see from the chart that 84% of our revenue is now digital which is an increase of 4 percentage points in the last six months and 8 percentage points over the last 12 months.

Our offline business is now 16% of product revenue, or £45m, as we continue to scale back unprofitable marketing and recruitment.

We expect this trend to continue in the second half of this year.

Turning to our digital performance by brand

JD Williams revenue displayed good growth in digital revenue with a 4.0% increase compared to the previous period.

Simply Be also grew digital revenue by 4.0% compared to the prior period. As I outlined in May, Simply Be's performance reflects our continued move to customer lifetime value modelling in this financial year.

We grew Simply Be customer accounts by 5.2% in the half.

Our focus has been on growing Ambrose Wilson digital revenue and we were pleased with the 10.5% growth in the period. I'm particularly pleased that the digital penetration of new Ambrose Wilson customers increased from 46% to 89% over the last 12 months.

Jacamo delivered a good performance with digital revenue up 6.6% and I am pleased that we grew customer accounts by 8% in the half.

Product brands digital revenue declined 5.7%. Strength in digital revenue growth at Oxendales and Fingleaves was more than offset by the managed decline of House of Bath, Premier Man and High & Mighty.

Today I'm excited to give you an update on our progress with the new strategy.

We are six months into a year of transition for the business, as we begin to implement our new strategy and make the required changes to our business model and ways of working.

We have made good progress and the necessary building blocks for success are being put in place.

So, what have we done in the last six months?

I'm really excited about the work we have done on brands. We have spent a substantial amount of time working on the future shape of the brand portfolio. We now have a clear and actionable market segmentation and are finalising the strategic direction for JD Williams, Simply Be, Ambrose Wilson and Jacamo as well as each of the product brands. Significant progress has been made and we will be announcing the final plans at the full year results.

Our ambition is to deliver sustainable, profitable digital growth whilst generating sustainable free cash flow. This will enable us to bring down net debt, invest in the business and deliver shareholder returns.

We now have a clear path to returning to free cash flow growth as we have passed the PPI deadline and have an agreement in principle or have settled all legacy old tax cases which have, combined, accounted for a cash outflow of c.£200m in the last 5 years.

I'm pleased that this is coming to an end and excited about the future prospects for the business.

So, turning to the five pillars...

So as a reminder, we have 5 core focus areas around which we have now aligned our operational planning and delivery.

First, we will focus on the UK customers to maximise our core market before leveraging any international opportunity.

Second, we will simplify the business to deliver a crisper, clearer brand proposition for our customers.

Third, we will continue to enhance our product offering for our customers to drive increased loyalty.

Fourth, we will accelerate our use of data and analytics to enhance operational efficiency and deliver a better customer proposition.

And finally, underpinning all of this, will be improvements in our colleague engagement, as we inspire our colleagues to further delight our customers.

Let's go through the progress.

In the last six months we have invested in our four core UK Brands.

Our focus has been on building fashion credibility for these brands through more aspirational communications grounded in deeper customer insight.

I'm excited by the new approach we are taking and am delighted that we've been shortlisted by Drapers for the Best Fashion Marketing campaign award for Simply Be.

We have used established channels like TV and Press, and newer brand building channels for us such as paid social and outdoor media. You can see some examples of our new approach to outdoor media on the slide.

We have maintained our online womenswear and menswear market share over the last year which is a good performance as we have been moving away from unprofitable sales.

We closed down our International division and exited direct marketing to the USA, removing an unprofitable part of our business. This has enabled us to re-deploy key skills to support the UK business.

We now have a clear and single-minded focus on the UK.

The past six months has been one of real change for our social media strategy. We have tested many new ways of working and as a result have organically grown audiences at a significantly faster rate than before. Our social media following is low. For context, Simply Be has just over 100,000 followers, JD Williams has 19,000 and Jacamo has 10,000. This is well short of where these brands could be and represents an exciting opportunity.

So, let me give you an example of what we've done on Jacamo.

We started by wiping the entire Jacamo Instagram feed. Posts are now product focused, aesthetically pleasing and includes a way to find product. Results have been very encouraging, demonstrating the exciting potential of social media as this is increasingly where our customers are engaging.

We also produced a swimwear shoot for JD Williams using Valerie Campbell, Naomi's mother. Valerie posted 3 Instagram posts on her own feed, which gained 25k likes collectively, alongside our own social posts which resulted in a significant uplift in our Facebook reach and Instagram impressions.

Early days but I'm pleased with the initial progress.

Turning to what we have done to simplify the business...

In the last six months, we have moved to an agile way of delivering improvements to streamline the user experience. We now have over 125 colleagues within our IT department working in 20 squads.

We have done this to deliver improvements to the customer experience.

Let me give you an example of one of the numerous improvements we have delivered.

We have simplified the navigation structure on the Simply Be mobile app. Previously there were 43 links to choose from when the customer opened the menu on Simply Be mobile. We tested a simplified version with 10 core areas. This resulted in an increase in 'add to bag' and in conversion for Simply Be mobile app.

Our recently opened Hyphen Interactive Live Photo (HILP) photography studio is beginning to transform our ecommerce photography capabilities and has contributed to our cost efficiencies delivered in the period.

We have good momentum and look forward to delivering more improvements in the next six months and beyond.

In November we will launch our automated returns facility at our Warehouse in Shaw.

Our returns facility has remained unchanged for 30 years despite increasing volumes. The current operation is constrained from a design perspective meaning the current processes needed improvement. The new facility will deliver benefits to the customer through faster refunds, better stock availability and improved presentation of items returned to stock.

It will also deliver operational benefits, by removing 66% of receiving and sortation activity.

Finally, and importantly, it will benefit our colleagues as the design is streamlined, has a brighter, lighter and improved work environment.

Our next focus has been providing better products for our customers. We have placed the customer at the heart of decision making across the business and have focused on understanding our customers' views on our product.

In particular, we have taken learnings from digital product reviews using Bazaarvoice and through weekly 'blind tasting' sessions of our products vs. competitors.

We have now ensured that listening to our customers is more deeply embedded in our culture.

We have continued to drive further innovation through our market-leading body scanning technology and 3D design & product development to deliver continued fit improvements.

We now have a much better understanding of our customers' shape, having scanned over 1,000 to date. This has fundamentally changed our approach to fit, moving it forward as a competitive differentiator.

We also selected our first clothing ranges using virtual technology which enabled us to design and select hundreds of styles in less than two weeks. This will drive sustainable cost efficiencies as it will significantly reduce our development time and negate the need for sample production.

We have brilliant product and are focused on making it even better with our work on fit.

However, we know from listening to our customers that they also want an improved brand proposition from us.

Using this feedback, we have made good progress in improving our branded portfolio to complement our own label ranges.

In September we launched Sea-Salt, Joules and Hobbs as new brands for JD Williams, and we have just launched Tommy Hilfiger on Jacamo and will be launching Calvin Klein shortly.

Monsoon, Oasis, Lacoste and Lyle & Scott will also expand their product offer across JD Williams, Simply Be and Jacamo.

We are continuing to improve our offering and have some exciting new names in the pipeline.

Turning to our use of data... We have built good foundations in the last six months as our enhanced use of our rich data has continued to improve customer insight in our business.

We have moved to customer lifetime value investment models in our digital marketing strategy to drive a more sustainable financial outcome. I'm pleased that our innovation in data resulted in winning the Drapers 'Best Use of AI' award in May.

We have partnered with Decoded to deliver the Data Fellowship, an internal programme to develop data skills across N Brown. We're now on the second cohort of this to ensure that the use of data is embedded across our whole business.

We have adopted a data led approach to media spend which has been a key driver in accelerating the business to be 84% digital.

We are at an early stage in trading smarter with data, but we have built good foundations and continue to develop our own in-house capability and bring new talent into the business.

Finally, but most importantly, as I outlined in May we believe that better engaged colleagues will deliver a better customer experience.

We have made changes to our trading and marketing teams to increase pace and customer ownership, whilst at the same time, we are also investing further in critical skills in data science and user experience across the business.

We have also aligned all colleagues to the same reward framework of EBITDA growth, digital sales growth, customer satisfaction, reducing financial services arrears and improving employee engagement. This means everyone is eligible for a bonus and everyone will be remunerated and incentivised around the same goals. This is a significant step forward.

I'm hugely excited about our new Vision, Mission and Purpose and refreshed Values.

We launched these to our colleagues on Monday to give them a clearer indication of the direction the business is heading in, and how we behave.

The process was been developed bottom up by colleagues across the business, not top down from senior management.

This is a really important step in creating an engaged and dynamic culture and one which I am really proud of.

We have also improved the capabilities around the business to support the strategy.

In the last six months a Chief Brand Officer, Operations Director and Strategy Transformation Director have joined us, bringing a wealth of relevant experience to the business.

Within our senior leadership team, we are bringing in new talent and recently brought in a new head of SEO.

We have made good progress against the 5 KPIs which the entire business is focused and rewarded on:

- We have grown digital sales in the half
- We have increased EBITDA
- We have increased our Net Promoter Score
- We have reduced FS arrears
- We measure our colleague engagement annually and despite all the change we are making, I'm confident our colleague engagement is moving in the right direction

So, in summary, we are six months into a year of transition for the business and I am pleased with the good strategic progress we have made.

We have an ambition to deliver profitable digital growth whilst generating sustainable free cash flow and reducing net debt and I am pleased that the period of exceptional items is coming to an end as we head into the next financial year.

We remain focused on implementing our plans and the Board's full year expectations are unchanged. We are excited about our future and with that I'll turn to Q&A. Please raise your hand if you'd like to ask a question and a microphone will find its way to you. Thank you.

**John Stevenson:**

Morning. John Stevenson at Peel Hunt. A couple of questions to get us going. Just on the customer performance, I mean, obviously there's a lot of change going through., I'm wondering if you could talk, whether qualitatively or quantitatively, on what's been going on in terms of active customers within the brands as to recruitment and how they're shopping. You know, spend -- if you want to focus on digital rather than the overall brand. Second question: last time you talked about using AI and data for ranging. Can you comment if that's started to have an impact on availability and performance of product on the website? And finally, just to pick up on what you say on Financial Services, Craig, on not so much credit tightening, but obviously you felt like you firmed things up going into the second half. Maybe you could talk a little bit more detail about what you've done.

**Steve Johnson:**

Sure. So, that's growing metrics, finishing on Financial Services and whether or not we're using AI in merchandise. So, in terms of the metrics themselves, we're focused predominantly at the moment on customer lifetime value and digital growth of the brands that we're focused on. As part of the brand review, our intent would be to signal at year-end where we are heading, what the shape of the business would be like at that stage, and effectively, what are the measures that would be appropriate at that particular point in time? So, what we are purposely not doing is going into the measures at this stage because we may change some of the thinking around brands and some of the future direction of some of the product brands.

So, the business at the moment is focused specifically sustainable profitable digital growth. We're pleased with the 5 percent increase on the four key brands. We know that we're moving forward from a customer lifetime value perspective, and actually within that we have grown new credit customers as well. So, that's where we are at the moment. I'll talk more at the year-end on that point.

In terms of the merchandise piece, in terms of whether we're using AI, in terms of range planning, yes, we are. We're also using it in Financial Services now with the recent adoption of the piece that Craig talks about from a Fintech perspective. So, we are using it. It is helping and is improving our effectiveness particularly around sales -- when we do a sale that's helpful -- but also in terms of it starting to play through into how we are starting to buy a little bit differently as well. Very, very early days would be my assertion on that point, but, yes, we are moving forward on that.

**Craig Lovelace:**

So, from an FS perspective, John, the provision has continued to come down. I mean, this has been a learning experience since we introduced IRFS 9. It's a very detailed model. But the more effort you put into the front to effectively risk manage -- and don't forget, we've been adding more and more new customers at lower rates, who are, by their very nature, lower-risk anyway. So, throw that into the cauldron and you are generally getting a provision which is increasing, reflective of the risk of the book. But this has been a long journey. I mean, we started out at 17.9% provision, I think, 18 months ago, and we're now at 12. We're getting a much more refined -- continue to refine the view.



**John Stevenson:**

It just sounded from your slide as though you'd actually, there's been a kind of incremental tightening coming into the second half. Is that...

**Craig Lovelace:**

Introducing and having a 24.9 % rate for the majority of new customers, by its very nature, means you are pivoting toward a less risky customer. There have been some regulatory measures as well, which have impacted -- so, enhanced affordability assessments -- where you've got an extra layer of behavioural scoring and assessment on customers that, perhaps in past days, you would have lent to -- but now, if there's any sense that they're not going to pass that behavioural score, we wouldn't be going there. So, I think it's just generally internal and externally recognising that offering credit is -- we need to be more and more refined. And AI speaks to that as well.

**John Stevenson:**

Thanks.

**Matthew McEachran:**

Matthew at N+1 Singer. A couple of related questions, if I may. You mentioned that the product sales performance in the second quarter was impacted by a few things, including certain elements of the Financial Services model. I think you're probably referring to income capture, which may or may not be pampering the kind of sign-on process. Do you want to just elaborate a little bit, if that is part of it or whether or not you're through that, and you now got a smooth process for the extra bit of information?

**Craig Lovelace:**

Refining our view on who we on-board -- I mean, you had credit limit increases, so, this is part and parcel of a wider industry move, where you have to write practically to people about credit limit increases. That's always going to have an impact, but it was more affordability checks and the tightening of those as well. This is part and parcel of running an FS business, and it is just credit refinement, and it will have had an impact on this, without a doubt, for the right reasons from a customer perspective.

**Matthew McEachran:**

Do you see any of the applications and technology that you're deploying at the customer, and enhancing the smoothing out some of those processes?

**Craig Lovelace:**

Definitely. When we're talking about partnering with a fintech, it's effectively enhancing our visibility on their credit worthiness. It's taking more data sources on their data -- so, income and expenditure -- and it's making sure you have an even more refined view on those customers that could, on a very simple view, be considered marginal. But actually, if you get more comfort on their data -- their income and expenditure -- it's a sensible and risk-managed approach, to offer them a personal account.

**Matthew McEachran:**

Great, thanks. And the other question was on the other side, in terms of cash customers. You've now had a while in terms of looking at the performance and the repeat rates of cash customers. What can you tell us? Are you getting sufficient repeat and frequency to warrant that recruitment on the cash side?

**Craig Lovelace:**

I mean, it's a difficult one to call because, of course, the move away from a lot of the legacy offline business -- they were cash customers, but they were unprofitable when you looked to them from a contribution perspective. So, we still encourage the majority of new customers signing up as cash customers -- we're growing that, but there's a lot of moving parts, as we still exit some of the offline business. So, we're moving forward, clearly, overall, as our business model, we'd like people, if it's applicable and it's appropriate to them, to open a personal account, as well, and shop that way.

**Steve Johnson:**

I think, Matthew, the move towards customer lifetime value modelling should be considered when answering that question. And you know, we want as many people to shop with us as possible, however they want to show up for it. What we want is to make sure that we have a sustainable relationship from an FS perspective -- hence some of the changes that Craig's talking about -- but ultimately, we are shopping with the right people who we know will produce value over time. And I would sort of answer that question based on the work we're doing on customer lifetime value modelling. I think that's a very positive step forward.

**Matthew McEachran:**

Yeah. Great. Thanks. And then, the final question, just in relation to the hope that free cash flow will turn positive at some point -- just in relation to working capital, could you just give us a flavour as to your thoughts on -- and this is aside from debtor book -- Financial Services expansion?

**Craig Lovelace:**

Let's take the word "hope" away, because hope is always a difficult one. I can't control hope. The reality is the known knowns are that we've had since October 2016 known financial redress numbers. And it's really important the deadline has passed; 29 August was the deadline -- the cash goes out primarily by Christmas time and then that deadline has passed. I mean I would say that for three years on from a tax and legacy cases, we're working through very practically with HMRC the last three years have been effectively chipping off old structures settling them, moving forward and I expect within H2, the two pieces that jigsaw puzzle go. And then this group I really am very keen to be a very boring tax group from every perspective possible so I can put that behind me as well so the two big weights for an exceptional perspective which have driven that £200 million. It's not a hope factor it's a known known. It stops.

**Matthew McEachran:**

And working capital, what's the outlook for working capital stripping aside the Financial Services expansion?

**Craig Lovelace:**

So clearly, if the book continues to grow, that's a good outflow of cash but we've been tight on stocks at the year-end, we were 10% down on stock. We're still focused on keeping and improving our stock turns. From a creditor perspective, over the last couple of years, we have refined from a creditors perspective, we're not excessive in terms of payment dates. I don't see in a normal course of business wild fluctuations in working capital. We've had some big years where the book has grown heavily, and you've seen a big increase in net debt due to that. I think a more normalised level of book growth is where we would aspire to.

**Matthew McEachran:**

The introduction of new external brands there isn't a particular way to receivables?

**Craig Lovelace:**

No. Because we're not buying huge amounts of stock and settle that stock. It's a steady as she goes introducing see how they work. Not committing heavily upfront that stock.

**Caroline Gulliver:**

It's Caroline from Jefferies, can I just ask a small follow up on the Instagram? The changes you made for Jacamo. You talked about the fact that you could start again, and without giving too much away about what you might say next full year results, what sort of new approaches you're taking in social media?

**Steve Johnson:**

Yeah so I guess taking a step back, I could have given you some numbers that talk about thousands of percent increase from the first piece of work that we've done but clearly the point I'm trying to make is it is off a very low base and that's why I've have not chosen to put those sort of performance metrics, but they look very good, very good though! The key thing here is I think the business over the last six to 12 months has really started trying to understand that sort of return on investment model, again moving to customer lifetime value. We've implemented digital attribution models which are marketplace models, and what that's telling us, which we were aware of anyway but it's nice to see it coming through analytically, is that we have opportunity in our social space and also natural SEO. So, from here on in all of our brand advertising will pivot potentially a little bit away from paper, which we know, but away from PPC and Google shopping and more into the building the brand through social and natural search capabilities. So that's not say walking away from those things, clearly it's all part of trading, but it is saying that we have a great opportunity in that space and I think to my answer earlier on some of the metrics, one of the things we should do at the end is talk about where the shape of the business is going, but also where we think those types of opportunities are and what we will therefore measure as we go forward. So, I'd like to cover that more at the year and, being straightforward, not to dodge the question. It's just we need to work that through in a bit more detail at this stage.

**Craig Lovelace:**

The shape of the group's marketing spend, it's changed so much over the last five years and I'm well aware that there's a desire for more statistics on that going forward. The reality is go back five years and the predominant spend was on paper. Paper still has a part in this business. So certainly we can foresee that still a stimulus to good contribution growth for some of our customers. But the reality is actually you're now moving into a space where three years ago you were increasing your spend on paid search. That has got a lot more expensive over the last two to three years as more people have moved into it. So now we're refining that spend and now moving more to paid social.

And actually, our spend on brand has gone up in this half, compared to last year, predominantly in TV campaigns on E4 with Simply Be, and also Ambrose Wilson. So, that is a call we're making, to try and build a brand. It would have been very easy to have pumped up the top line with spending a lot on paid search, but it's not driving contribution. So, this is part long-term, part short-term.

**Caroline Gulliver:**

Thank you. Can I just ask, then, a follow-up as well? Again, not wishing to pre-empt what you might say next year, the quite significant digital decline in the product brands, obviously, quite different experiences by brand -- Can you give us any more colour on why you're seeing online sales go down?

**Steve Johnson:**

Yeah. Sure. So, paper does drive some customers online. I think that's one response. And clearly, as we're working towards understanding the refinement of those models, clearly, that's an action that you don't really know unless you sort of work through that. So, that's a part of it.

Moving the investment into the four key brands, and you know, delivering on what we say -- so, we're saying these four brands are important, so, in the business, what we're doing is we're shaping the investment models to focus on those four brands, and taking money out of some of those product brands. So, that's a good thing.

And then, I think the final part I would come back to is the customer lifetime value modelling piece, and where we want to try and build our brands for that sustainable future. So, again, if we wanted to, we could sell some more on those brands, if we just wanted to hit a sales number but it isn't building that sustainable story for the future. All of it is intentional and we're very comfortable with where we are on those brands.

**Kate Calvert:**

Morning. Kate Calvert from Investec. Three questions from me. First one, on JD Williams's performance, sales are still down. Is this still the drag of the Fifty Plus?

**Steve Johnson:**

So, it's not necessarily the drag of the Fifty Plus. That's not something we're talking about in the business anymore. That has definitely annualised twice over.

JD Williams was 20-odd percent paper, that's just moved over the 80% mark. So, whilst that brand is important to us, we are taking a customer-led approach, as opposed to a brand-led approach. That's quite different, I think. We have the same sort of inefficient spend that goes on within that brand for the customers who shop in the same way as they do on some of the product brands we've just talked about. So, we are applying the same principles and the same rules at a customer level, rather than a brand level. So, again, at this stage, we're very comfortable with where we are on that.

**Kate Calvert:**

Thank you. Second question is: obviously, the work you've been doing on the brand segmentation, you said you'd come back to us with more detail. But when do you think the product that will come out as a result of this will hit the website? Will that be more autumn next year, or will we start to see some of that come through in the spring?

**Steve Johnson:**

Ah, that's a great question. I mean, our product is developing all the time. We're reducing our lead times. We should talk a little bit about the sort of weekly blind tasting sessions. We do them sort of weekly, bi-weekly, depending on what time it is in the year. But effectively, we get our customers in, and we put a bunch of our customers, and a bunch of people who look like our customers from a data perspective and we invite them in, and they talk to us about our products. But they don't know it's our products. We cut all the labels out of it. And they are giving us a preferred product, between ours and the competitors'. And that feedback is really, really incredibly rich. And therefore, what we're doing on a weekly basis is we're taking that feedback and feeding it back into the product cycle. So, improvements are actually starting to appear now, and will continue to gain momentum over that period of time. So, I wouldn't assume that the product is waiting for the brand piece. Internally, clearly, we also know where the brand

piece may turn out -- we're well-developed with it, because of the things that we've been doing in the organisation.

When I talk about putting customers at the heart and listening to them, we are literally listening to them, telling us whether they like our product or not. The product team are in the room. It's very interesting feedback for them to receive first-hand.

But clearly on the back of that there's a process that goes into moving it forward quickly, and I'm pretty pleased with the progress the product team are making. I'd also say it's really good product in the first place, so what we're not saying is we've got a difficult situation here. We're saying we've got a great product. We want to make even better, and that's the process that we have in post.

**Kate Calvert:**

And the final question is on the additional third-party brands. Is there any exclusivities within that in terms of sizing?

**Steve Johnson:**

There is a little bit of exclusivity in one of the deals -- one or two of the deals. I would need to come back to you with that one, Kate, in terms of the full detail, but I don't want to sort of get it wrong, so we'll come back to you on the full detail. But we do have some exclusivities on some of those deals, absolutely.

**Kate Calvert:**

Great. Thanks so much.

**Steve Johnson:**

Thank you.

**Chris Wickham:**

It's Chris Wickham from Equity Development. Just a couple of things. You talk about your 125-strong headcount in IT. I was just wondering if you'd tell us a bit more about what the staff churn is in that space and what you would expect it to be, and a little bit more about the actual roles within the 125 that you've got. And then just going back to the earlier point, perhaps you'd give us a bit more granularity about social media profile and how you get that out?

**Steve Johnson:**

In terms of the 125 colleagues we've got in IT, we've moved from nothing to 125. We did have some small agile squads being started to build which we've built around sort of mobile app development historically. So, we've taken that concept, in essence, and we've accelerated it. It isn't new for some members of our business to understand that's how we work. What we've done over the last six months particularly is absolutely ramp that up at an enormous pace. So, we're now at 125, in the next half of the year, what we want to do is connect those 125 guys in IT a little bit more with the business. Starting to get the business users operating within the scrums that you would expect in a sort of typical agile environment. So, we're halfway through that process, would be the way I would describe it.

Right now, turnover -- I don't have the stats off the top of my head, but I know it's reasonably low. Lots of engaged colleagues, really enjoying the empowerment, really enjoying the way that this works in our organisation. We've moved from a big program delivery to micro services, and the feedback is very, very positive from our colleagues.

In terms of the social media question, we've given some examples in the presentation of the work that we're doing -- a collaboration with Valerie Campbell -- trying to start to use sort of real stories to enable us to create that engagement with our customers. But a lot of it clearly flows from the brand advertising. I don't know if you noticed as you came in that the brand advertising has changed slightly in the sense of how it's positioned. Simply Be; the new icons piece is all about celebrating the curve implicitly. We know that customers of size 16 and over are under-represented from a fashion perspective and under-represented from a catwalk perspective in the way that that's put forward, so we're now using that sort of iconography to start to tell stories and get people engaged from a social media perspective. Jacamo is moving a little bit from the big guy to, you know, "what makes the real man" in a sense of Haskell is talking about his day to day and his thoughts and his feelings, so we're moving a little bit more into the it's all about your moment; it's all about, as a guy what makes the man rather than the size of the man basically. And JD Williams; we've moved to an interesting campaign which is all about how ladies of a certain age can't necessarily accept compliments, and lots of compliments get given, and that's the story that we're trying to create there. So, storytelling through social engagement and taking that sort of ad and running it through the line is how we're going to try and engage more customers in that space, as well as, as you heard me say, investing in a tonne of capability to come in and help us.

Any more questions?

**Craig Lovelace:**

Thank you very much.

**Steve Johnson:**

Thanks very much. Have a good day.

[end of transcript]