



N Brown Group Full Year Results FY17

Angela Spindler:

Thank you, Andy and welcome everyone. Thanks for joining us. So we are fielding a pretty big N Brown team today. So in addition to Andy, Craig, and Myself, we've actually got a FROW for those of you who are familiar with fashion language.

So we've got Ralph Tucker, our Product Director. We've got Steve Johnson, Financial Services Director, Ann Steer, Marketing Director. Andy Haywood, our COO. We've also got Theresa Casey, Legal Counsel and Bethany Hocking who I know you know, who heads up our IR. So welcome to them as well.

Let me start by sharing my summarised and quite quick reflections on the business and our FY17 performance. So pretty much in support of what Andy has just described, we are no longer a mail-order company in transition. We are an online fashion retailer having fundamentally changed our business model over the course of the last three years. The final stage in our transformation is the completion of our systems project which we called, "Fit for the Future".

So in January, we talked about the benefits we're getting from our improving trading agility thanks to all the people, process, and systems changes that we've made to date. And it's this agility which has enabled a good trading performance in H2 with product revenue up 6.1% driven by a very successful peak period. The changes we've made have really benefitted our ladieswear business. So we delivered the best performance for almost a decade, outperforming the markets and gaining share.

In financial services, our focus ahead of our new systems going live has been on improving the quality of our customer loan book and we've had a strong performance here. And looking ahead, the macro environment, as Andy has mentioned is challenging for retail. And in response, we are remaining really vigilant around cost control and efficiencies whilst ensuring that we continue to invest in our customer proposition to secure future profitable trading.

And finally, on current trading. Although it's early in our new financial year, I'm pleased with performance so far. It's been encouraging and it's in line with our expectations.

So our schedule for this morning. Craig is going to take you through the financials and also give you a quick update on financial services and I'll then share with you more details on our progress. So Craig, over to you.

Craig Lovelace:

Thank you, Angela and good morning, everyone. So before we get into the detail, our financial summary first.

So this year is a 53-week year. In order to make comparisons meaningful, all financials are on a 52-week basis unless otherwise stated. Cash flow and balance sheet items are at the year end. So group revenue was up 2.5% with product up 3.4%, and financial services up 0.4%. Product gross margin was down 150 basis points and financial services up 110 basis points. Both within guidance. Group trading profit was 80.6 million. As you know, last year's trading profit of 88.3 million benefited from a credit of 3.8 million as a result of the IS-39 restatement. PBT was down 19.8% in the first half and flat in the second half against a tougher comparative. So, an overall improving performance through the year. Group adjusted EPS was 22.18 pence. Net-debt was 290.9 and again along with guidance. And finally, we are holding the dividend flat on last year we continue to invest in business.

So moving to revenue. This slide as usual shows our performance as we progressed through the year. So Q4 performance shown here is for the eight weeks to the 25th of February. So it doesn't include the 53rd week. Product revenue is up 6.9%. Against a soft comparative of down 3.5. The financial services figure is also heavily skewed by comparative of plus 8.1%.

Turning to look at revenue by brand. JD Williams was up 4.7% and as you know there are two different moving parts here. The JD Williams brand was up by 12% whilst Fifty Plus, which is in the process of migrating into JD Williams, was down 9% for the year. Although encouragingly up 1% in the second half. Simply Be was up 9.9% and Jacamo was up 4%. Overall therefore, Power brand revenue was up 6.3% and 9.2% if we exclude Fifty Plus.

Secondary brands were up 1.6% with Fashion World the strongest. And finally, the Traditional segments saw revenues decline by 1.3%. Performance here also significantly improved during the year with the first half down 4.2% for the second half up 1.6%. So, next slide shows revenue by category. Firstly, we've changed our allocation very slightly, moving accessories from ladieswear into a renamed footwear and accessories category, in order to better reflect how we operate. Ladieswear increased by 4.2% with our performance strengthening as we went through the year. Half 1 was down 1.1%, and Half 2 up 10.4%, a strong result.

Menswear performance was consistent through the year, up 4.6%. Footwear and accessories was up 0.7%. And again, this masks two different performances, with the first half down 3.6%, and up 5.3% in the second half.

Home and gift was up 2.8% and our strategy in home remains unchanged. We aim to recruit new customers to our fashion offering, but then we see customers also buying homewares.

So, moving away from revenue into gross margin. Group gross margin was down 70 basis points to 55%. Financial services margin was up 110 basis points, driven primarily by the significant improvement in the quality of the loan book. Product margin was down 150 basis points, in line with the guidance that we'd given in January. We've shown the moving parts behind this performance, and we continue to drive increases in bought-in margin, mainly by working ever closer with our suppliers.

We saw a negative 80 basis points impact from increased promotions almost entirely during the first half - again, as discussed in October. Mix drove a small increase, where the benefit of ladieswear out-performance partially offset by a higher participation of lower-priced items. This is a headwind for the percentage margin, but ultimately still drives incremental cash profit.

As you know, FX rates represent a continued significant headwind. For FY17, the change in FX rates impacted margin by 70 basis points, and I'll give you more detail looking ahead in a moment. Finally, this year, we've cleared a small amount of aged inventory. This resulted in a 50 basis points headwind to gross margin.

FX sensitivity. So for FY18, we expect our net annual purchases to comprise the following: circa \$125 million -- which, as you're aware, we have a hedging strategy to cover -- together with 130 million sterling, where we face indirect cost pressures. These numbers are slightly different to those disclosed in October, as we've moved some supplies from GBP to USD to allow us to better control the exposure.

The table shows our U.S. dollar exposure. And for FY18, we've hedged 90%, and at the current time, for FY19, 25% of our net purchases, both at a blended rate of 1.27. The gross unmitigated headwind year-on-year is circa 10 million for FY18 and circa one million for FY19. You also have the sensitivities for the unhedged positions shown in the table here.

Importantly, we continue to migrate these headwinds as much as possible through supply negotiations, fabric and production planning, price optimisation, and our ongoing work on supplier consolidation. So, moving down the P&L to operating expenses. Warehouse and fulfillment costs increased by 3.8%, driven predominantly by volumes, which were up 6% overall and up 10% in H2, combined with further improvements to our delivery offering. These two factors were partially offset by ongoing efficiencies. Marketing costs were up 0.5% and admin and payroll costs increased by 6.3%. This reflects continued investment in digital talent, effectively funded by some marketing spend.

EBITDA therefore declined by 4.7%. Depreciation amortization increased by 9.5% as a result of the continued investments we are making. And therefore, overall our operating profit was 88.3 million, with a margin of 9.9%.

Moving further down the P&L, net finance costs were down 4.9%, driven primarily by lower funding costs on our securitization. We therefore delivered a trading PBT on a 52-week basis of 80.6 million. We then added the 53rd week, £2 million and the remainder of this table is on a 53-week basis.

Exceptional costs were 25.2 million in line with our statement earlier this month. This being made up of 22.9 million for financial services customer redress. I'll comment more on this later. And then two and a half million related to our ongoing tax cases. With a marginal credit from clearance store closure costs last year.

To move away from the P&L and into the balance sheet. Inventory was up 3.9%. Within this we successfully disposed of a small amount of aged stock. And the higher-level year on year is predominantly driven by the impact of changes in exchange rates. Importantly, inventory units were down 4.5% year on year. Creditors were up 6.6% reflecting the prior year tax creditor being flattered by tax refund associated with our IAS39 restatement. And trade creditors were lower year on year. Headline net debt therefore stood at 290.9 million, broadly flat as planned with gearing also flat.

The next slide is somewhat similar to the one we showed last year and gives you a perspective on how we look at our leverage and overall indebtedness. Our net debt to EBITDA ratio was just under 2.5 times. Whilst correct this leverage ratio however does not prima facie recognize the significant degree of headroom within our customer loan book, effectively deferred cash. We've therefore added back the securitization facility. This facility was 270 million last year, two times covered by the net loan book. On this basis our loan book adjusted net debt would be 20.9 million at the year end.

Receivables and provisioning. Gross trade receivables declined by 4% driven by a number of small debt sales we undertook in the year mainly of payment arrangement debtors and partly offset by ongoing improvements in the quality of the loan book which increased normal trade receivables. The closing bad debt provision declined from 97.6 million to 64.7 million, again driven by the sale of some higher risk payment arrangement debt at a slightly better rate than book along with ongoing progress in reducing overall debtor risk. The majority of the balance of debtors written off relate to this debt sale. I'll update you on the performance of financial services in a few slides.

Now on to our cash flow bridge which you'll be familiar with and the full tables are in the appendix. Underlying EBITDA for the 53 weeks was 117.9 and we incurred exceptionals of 25.2 million. We saw a working capital outflow of 25.8 million due primarily to growth in our receivables balances. We spent 42.3 million on CapEx, predominantly on systems, and there are some small timing impacts within this figure. The cash tax figure of 1.9 million inflow reflects

payments of circa 16.5 million broadly offset by refunds relating to prior periods. Of increasing significance, so far we've effectively overpaid more than £35 million in advance to HMRC due to our ongoing historic VAT disputes. This is cash we are required to advance pay as a result of HMRC's protective assessments regardless of any litigation process.

We continue to have to make further annual payments of circa £8 to £9 million. Clearly a successful outcome would mean this cash returned to us. Finance costs were 7.8 million and we paid out 40.2 million of dividends. And finally we've recognized 20 million in respect to our financial services customer redress provision. Overall therefore we saw a small net cash outflow of 1.2 million.

And now on to guidance for FY18. So all P&L guidance is versus a 52 week figure for FY17. We expect product gross margin to be down 120 basis points to down 20 basis points with FX the main headwind here as already discussed.

Financial services margin is guided to be flat up to 100 basis points driven by the continued improvements in the underlying quality of the book. Guidance for group operating costs excluding depreciation amortization is up 3.5% to 5.5%. Over and above variable cost increases, some inflationary pressures, and our usual rigorous cost control are there three additional factors at play here; continued investment in our talent; a small increase in international investment to drive this business forward as you would expect with the re-platforming and a new international director; and finally we'll be incurring an element of dual running costs as we effectively pay IT support costs for two different technology worlds. This equates to circa one percentage point. Depreciation and amortization will be between 29 and 30 million and net interest costs between eight and nine million.

Next on guidance I'm expecting our tax rate to be around 20%. As we guided the interims CapEx will be consistent with FY17 at circa 40 million. We expect net debt to be between 300 and 320 million. This reflects the increased cash flow impacts of financial services customer redress payments coupled with further advance tax payments for HMRC. And finally we expect exceptional costs of circa three million due to our ongoing tax disputes with HMRC.

So moving away from the numbers I'll now update you on financial services. We are pleased with the performance here driven by a significant improvement in the quality of the customer loan book. Revenue was up 0.4% but within this interest payments were up mid-single digits while non-interest lines were down low double digit.

The improvement in the quality of the book is particularly reflected in the gross margin up 110 basis points. Turning to our usual financial services KPIs. Credit arrears were down 100 basis points again driven by the better quality book. The provision rate of 10.8% was down 480 basis points and benefited from several sales of high risk payment arrangement debt as already discussed. Whilst these sales were relatively small, the risk profile of the debt mean they had a significant impact on the provision rate. For FY18 assuming no further debt sales we would

expect both the arrears and provision rates to remain broadly flat. We recruited 129,000 new credit recruits who rolled their balances in the second half. This was down 5% although it is a significant improvement on the negative 19% which we reported in H1. As you know in autumn/winter we ran a trial offering qualifying new customers a lower APR. So offering 24.9% on Simply Be and Jacamo and 39.9% on JD Williams.

This was just a small trial and is clearly far less personalized than our full financial services system offering. But the trial has, however, been encouraging with a slight increase in the proportion of new customers electing to open an account. To date the behavior of these customers is also in line with expectation but we need to allow more time to really pass before we can fully judge the success of this trial.

Turning to the financial services exceptional cost related to financial services customer complaint redress. As announced a few weeks ago this cost is higher than our previous guidance at 22.9 million. This is made up of two components. Firstly recompensing certain customers due to an error in our previous calculation for redress as discussed in the interims. Secondly our estimate of the likely future costs arising from complaints related to financial services products sold in the past. This cost associated with a second area is the primary increase during the second half. It is a positive that we now have a definitive deadline for claims. However, this deadline is over a year later than we and the wider industry had previously assumed. This extension together with an uptick in claims as a result of public awareness over the deadline are core drivers for the increase in the exceptional cost. And finally claims settlement experienced to date are higher than our initial early estimation in October had assumed. This is because claims very significantly related to products purchased in 2012 or earlier and therefore the compounded interest has a disproportionate effect on the ultimate refunded amount. For your modeling I'd assume that cash flows linked to this cost are spread between FY17 and FY20.

Turning to my final slide. This is a familiar slide but the chart shows the breakdown of our customer loan book split into core debtors and debtors in payment arrangements. As you can see this year the overall book declined by 5.6% but within this core normal debt was up 4%, an encouraging trend. Turning to payment arrangements I've also included a look back to FY10 to give you some context.

In that year, payment arrangement -- payment arrangements represented approximately 30% of the book versus 20% in FY16 and just over 10% today. The core debt book was a third smaller than it is today. However, the size of debtors on payment arrangements was almost double the value today. Between these periods, the absolute amount of payment arrangements increased, peaking FY14 as we very proactively moved people onto plans. Historically, once we are reasonably good at moving people onto plans, we didn't attempt to rehabilitate any of these customers.

Once customers came to the end of their plans, they ceased to shop with us, irrespective of their circumstances or risk profile. Over the past few years, we've had good success with rehabilitating customers where appropriate -- so, getting them back shopping with us. The 44% decline in payment arrangements this year is due to two factors. Firstly, the continued rehabilitation of

customers, and secondly, the sale of several tranches of payment arrangement debts where we did not feel rehabilitation was realistic.

So, before I hand it back to Angela, we wanted to show you our latest Simply Be advert. This is an extended version we've used on a range of digital channels and really speaks to the brand's size inclusiveness.

Angela Spindler:

Thank you, Craig. That was behind the scenes extended footage from our very successful "We Are Curves" TV ad. And it created really engaging content for our Simply Be sites, both in the UK and in the USA. And I will come back to talk more about Simply Be later.

So, I'm going to share with you now some insight on our performance, starting with our strategy. And firstly, no change. We've shared this many times. Our vision is to be the universally loved experts in fashion that fits, regardless of size. And our size inclusivity is key and an important driver of customer loyalty. So, we've got a family of targeted brands, and this is a real advantage as we develop different customer segments within our fit specialist niche. We go to market primarily through online channels and have ambition to leverage our capability and investment by taking our proposition into international markets, starting with the USA. So, hammering home our competitive advantage on fit and technology is our big opportunity.

We're using data and digital techniques in increasingly creative ways to help us achieve our vision, from starting to use 3-D avatars in fitting garments to innovative user experience work, for example, the use of eye-tracking technology and physiological monitoring to gain even deeper insight into customers' on-site behavior during the shopping journey.

So, we have transformed from a mail-order business to an agile profitable online retailer. Completion of the Fit for the Future systems program provides the technology infrastructure that concludes this change agenda. And this slide captures just how much has been achieved over the past three years. I'm not going to call out every point. But on people, we carried out a significant head office reorganization, which allowed us to bring in new talent, skills, and experience to the business. The development of our talent pool continues, and our Manchester base means we have great access to young talent in technology, in design, and in buying. We're using new and innovative ways to recruit, such as our tech experts hosting talks in our offices. One of these events alone led to 11 new recruits into our digital center of excellence.

On process, we fundamentally changed our buying and merchandising processes, improving open to buy, stock flexibility, and reducing lead times. We are now continuously improving in this regard. We've also worked hard on supply chain, moving to fewer, better suppliers, opening our first in-country sourcing office in Bangladesh and improving our buying-in margins. Our marketing continues to shift from paper to other media, and this is accelerating our power brand performance. We've also improved our delivery offer. We now have a 10:00 p.m. cut off for next day, and a whole host of delivery options, including Saturday and Sunday deliveries, nominated

day delivery, click and collect from over 5,000 parcel shops nationwide. This has been in place for some time, but it's now showing really good growth.

In September, we were pleased to receive unconditional authorization from the FCA for our financial services business. This followed a period of significant change to policies and processes, including introducing the opportunity for customers to pay using their debit or credit card. This has consistently accounted for 50% of new customers and has successfully broadened the appeal of our brands.

We've made sizable investments into our infrastructure, including our warehouse extension, our new merchandising systems, parts of our new credit system, our new USA website, a new finance system. On systems change, we still have some more to do, and I'm going to come back to that. Finally, we've carried out a very significant brand consolidation exercise, migrating smaller titles into larger ones, to make us more efficient and effective online. Once the migration of Fifty Plus is completed, we will have 11 brands. This compares to 44 brands just three years ago. So, we've done a lot, and it's working.

We're a completely different business to the one we were just a few years ago. And whilst it has not been without its speed bumps and challenges, I'm really proud of the progress we've made and the opportunity now is to complete our systems project and then leverage the investments we've made to deliver sustainable profitable growth.

Most of our customers now browse our offer and make their selections online rather than via catalogues. This chart shows our increasing online penetration over the past six years, from just under 50% of revenue back in FY12 to almost 70% today - with absolute online revenues up 50% over this period. Our second largest channel is through our contact center. We know from extensive data that roughly half our contact center customers are unlikely to ever move online, largely due to age and in some instances, connectivity. These make up a sizable proportion of our traditional segment. So, 100% is not the end target. It's more like 85%, and we're pretty close, as you can see in the shrinking blue bars on this chart.

Turning to our KPIs, during the year, online revenue was up 10% with power brand online revenue up 14%. 69% of our sales came online, and for new customers, that was 77% of sales. By brand, JD Williams saw the most significant increase in this particular metric, going from 65% to 80%. Mobile devices accounted for 71% of traffic. And within this, smartphone sessions were up 49%. For JD Williams, smartphone sessions more than doubled year on year. Our conversion rate was 5.6%. That's down slightly on last year, although this remains significantly above the industry average. The decline was due to the increasing share of mobile sessions, which have a lower conversion rate than PCs. The conversion rates for smartphones and tablets increased by 8% and 3% respectively.

We continue to be at the forefront of online marketing innovation. We're moving our personalization capability at pace, delivering varied content to our customers based on their preferences, transaction value, and recent behavior. We're harmonizing messages across

channels, including onsite, email, and direct mail. We have invested in our data science team to further develop in this space and we're constantly reviewing and embracing new relevant technologies, applications, and ways of working.

Moving on to product. Firstly our KPIs. While market share in ladieswear size 16 and above was 80 basis points up at 4.2% with gains across all age ranges. If we looked at our share in size 20 and above we are now the market leaders with 9.5% share. That's up 280 basis points.

I'll talk about ladieswear performance in more detail on the following slide. Larger menswear market share was flat at 1.5%, a solid performance. But within this we gained share in younger menswear driven by Jacamo and saw small losses in older menswear. We'd expect this to recover as our traditional business continues to improve. We saw further progress in our returns rate this year. It was down 70 basis points. The main factors driving this are the ongoing improvements in our product. This includes our fit, quality, and value for money. The continued increase in the proportion of cash customers also benefits the rate as these customers naturally have a lower returns rate than the credit account customer. We continue to materially improve our in-season flexibility, open to buy now stands at 45% for JD Williams and 65% for Simply Be.

We achieved this improvement by moving some of our sourcing closer to home, consolidating our fabric base, working with suppliers on sample sealing, and moving to a more flexible freight model.

As I talked about at the interims our fastest lead time is now just three weeks for new items and for repeat items is just seven days. Our average lead time is also an important metric and I'm pleased to report that this has improved by over 20% year on year.

On to ladieswear. Ladieswear revenue was up 4.2% for the year as a whole, 10.4% in the second half, significantly outperforming our competitors. The performance is a result of the changes we've made over the past few years including the new design team, our stock flexibility, the price recalibration exercise we carried out a couple of years ago.

Our brand consolidation has also allowed us to be more focused in terms of our brand marketing, significantly improving the effectiveness of our effort and our spend. We are still in the process as Craig mentioned of migrating Fifty Plus so against this headwind I'm even more pleased with ladieswear performance during the year. Within ladieswear I'd also particularly highlight lingerie which was up 7%. This is a really fit crucial category. And this result really speaks to the competitive advantage we have here.

So turning to product partnerships. We approach these in two ways. We sell third party brands on our site often in larger sizes and on an exclusive basis. And secondly, we are starting to sell our brands through other retailers. These partnerships drive our point of difference in plus size through giving increased access to our brands. They help cement our position as the go-to brands for plus size customers everywhere.

Since the start of FY17 we've added over 100 new third party brands to our sites, a big step forward, and customers responded well to the even better choice they now have. We went live on ASOS with Jacamo this year. And although early days we're pleased with the results so far. And we've also announced today a new partnership with Tesco. This partnership is two-fold. So we will launch capsule collections of Simply Be and Jacamo on Tesco Direct, one of the UK's largest ecommerce sites. And we'll be trialing in-store collections in four stores across Eastern Europe. We will be live by next month and are excited about the potential the potential here. That Tesco have chosen to partner with us to offer a plus size range to their customers is a really strong validation of our expertise and our credibility in this area.

So on to performance by brand. And firstly, JD Williams. Total product revenue was up 4.7%. We still report two brands within the number, JD Williams up 12% and Fifty Plus which was down 9%. We're really pleased with the performance of the JD Williams brand because it was in double digit growth both in the first and the second half. Online revenue of JD Williams was up by 19%. We had particular success in the second half with The Cut campaign, a collection of great value current season fashion pieces which further reinforced our value for money credentials. Sales of these lines were up 72% versus comparable lines the previous year. Best-selling lines in the range included at £15 swing dress and an £18 tunic.

We believe that great fashion is for everyone. And as part of this stance we continue to campaign against the lack of age diversity in the fashion industry. In February we staged a protest at London Fashion Week together with five models all over the age 45. That's in stark contrast to the average London Fashion Week model who is just 17. So our campaign received significant positive press coverage and really great levels of customer engagement.

For Spring/Summer 2017 we have launched a new bridal range for JD Williams specifically designed to fit or flatter an older or second time bride. The collection ranges from size 10 to 32 and from £45 to £399. The customer reaction so far has been really positive.

Just quickly on Fifty Plus. The performance improved significantly through the year. Revenue was up 1% in the second half as we commenced the migration process. And this is going to be completed during the summer this year.

So I'm now delighted to give you an exclusive preview of our new summer ad for JD Williams. This actually launches next week.

Simply Be had a strong performance this year with product revenue up 9.9%. Driving this result were active customers up 20% year on year. Our fast fashions sub-range Simply Be Unique continues to perform well with demand up 67% in the second half led by our new under £30 party dress offer. Denim is also a strong category for us. Jeans were up 14% in the second half. In October we launched our Simply Be shopping app. Performance to date has been encouraging with good customer feedback and conversion rates. We're planning to continuously improve and drive this channel in the year ahead.

Craig showed you earlier our new Simply Be Spring/Summer '17 ad, We Are Curves, which stars Iskra Lawrence. This is our most socially engaged and digitally driven campaign ever including takeovers of the Mail Online, significant Facebook activity, and we were delighted that the ad soundtrack was also top of the Shazam charts.

Onto Jacamo. Product revenue on Jacamo was up 4% with performance strengthening through the year. Driving this performance was a 12% increase in active customers partially offset by lower spend per customer due to the subdued market backdrop particularly in the first half.

By category we saw strong Autumn/Winter '16 performance in denim, driven by new ranges, and in sportswear, driven by third party brands and the relaunch of our own brand, Snowdonia. This relaunch was a great success with demand up 40%. We recently launched our new Spring/Summer '17 campaign shown here on the slide. And this further builds on our Jacamo Fits proposition.

In late February, we launched Jacamo Unlimited. This offers customers unlimited next day delivery for a year for 9.95. While it's early days, customer take-up so far has been very encouraging. In autumn, we launched our Real Man Runway, our search to find an everyday guy to star in our next campaign which also helps to champion male diversity in the fashion industry. We received almost 500 entries - so I don't know if that included any of you?! Our short list - can't see you in the lineup - of 20 men shown on this montage were judged by a panel, including Freddie Flintoff. Three runners-up, and the winner -- Andy Caine, who is a builder from Leeds, featured in our Autumn/Winter '17 campaigns.

Onto the traditional segment. This represented a headwind in the first half, so I'm pleased to report that the actions we took worked, with revenue up 1.6% in the second half. These included a revamp of our marketing materials, the launch of new bespoke publications and improvements in the product range, particularly reinvesting back into our jersey, knitwear, and nightwear offer.

We gained 50 basis points of market share in the most recent figures, and this was the largest share gain of the top 10 retailers in this segment. Our strategy in traditional remains unchanged. We expect to hold our revenue broadly flat, through gaining share in this declining market. We have competitive advantage which will enable this - namely our scale, loyalty, and our experience in serving these customers. So, whilst it's not a significant growth driver in our business, it remains very relevant to our overall portfolio, and we continue to generate good financial returns from this segment.

Turning to our customer KPIs -- so, our total active customer file increased to 4.3 million. We saw an improving trend with active customers down in the first half and then up by mid-single digits in the second. This was driven by record customer recruitment in H2. Power brands saw a 9.9% increase in active customers. Our most loyal customers - those who have ordered from us in each of the last four seasons - have increased by 3.6%, a marked turnaround on the decline that we spoke about six months ago. This performance was driven by strong Power brand marketing and the turnaround in our traditional segment.

We were really pleased to receive a customer satisfaction score of 86.4% from the U.K. Institute of Customer Service. This is our highest ever score. As this slide shows, our score is over 4 percentage points higher than the sector average, and we now rank in second place behind only Amazon. Looking into the details behind our score, we saw particular improvements in complaint handling, speed of response, and in on-time delivery. Our score and ranking across the sector is a testament to our continued focus on customers, putting them at the heart of everything we do.

Moving onto international - firstly, the USA. Revenue in constant currency was down 4.2%. The new site went live in September, and as expected, this caused some disruption in the run up to peak. However, it was important to get the site into a live environment. The learnings from the launch have been an excellent catalyst to the further development of our agile program, and more on this in a moment.

Our Irish business delivered a strong performance with revenue up 3.8%. We delivered an operating profit of 3.3 million, compared to 1.8 million last year.

Looking forward, our new USA website has now benefited from four well-executed follow-up releases and has delivered the functionality scoped to enable us to start driving harder. We continue to be confident in our ability to capture this opportunity. Our previous ambition of \$100 million of revenue remains unchanged. To drive delivery of our international strategy, I'm pleased to be announcing the appointment of our new international director, Richard Clark. He will sit on our operating board. Richard was most recently marketing and international director at Boohoo, and brings with him significant online retail and international experience.

Finally, onto our systems program, Fit for the Future. I'm pleased with the progress made over the past few years. As a recap, we have already landed a new finance system, new merchandise planning tools, cyber-source and power curve as enablers to our new credit system, our new USA website, and phase one of our marketplace developments.

We deliver the major milestone of the program when we go live next month with our new credit system on our new Hybris web platform in the U.K. This sees a significant amount of the core functionality delivered. One of the benefits of having a family of retail brands is that we can minimize risk by going live on smaller brands. That's why we've chosen High and Mighty.

As we've previously discussed, our delivery methodology is agile, which means we adapt our approach, as we go, based on results and based on learnings. This allows us to optimize efficiency and minimize risk. And with this context, we have adapted the rollout plan as follows.

The end date for completion has not changed - Summer 2018. But we're pleased with the revised program, as it significantly improves the ease of implementation. We will continue our fast pace of development to secure all functionality we have scoped and have a truly industry leading customer experience.

Our intention is to land all of the new developments via monthly releases onto High and Mighty and the USA sites rather than onto our larger brands. These monthly releases will add to the core functionality, covering for example direct dispatch, enhancements to our call center systems, selling third-party supplier products on our sites, buy now pay later, credit functionality, and new product types such as personalized products.

Our adapted approach, going forward, has benefits. Firstly, it reduces the commercial risks, as the new tech will have been tested in a live environment, including through peak trading, before we migrate onto major brands. And secondly, it minimizes the time that we will be operating at scale into different technology worlds. We're confident that this approach will yield the best outcome, technically and commercially, but we remain committed to an agile methodology.

I'll now wrap up before opening up for questions. So, we have transitioned to an online retail model, as evidenced by our penetration of nearly 70%. Our buying, marketing, merchandising processes and our services proposition all reflect this. Understanding our customers better than anyone, and delivering appropriate fit choice, value, and service, including flexible ways to pay underpins our compelling proposition. Our growth strategy sees us increasing our access to new customers via international markets and via retail partnerships. Input cost inflation and degradation in consumer disposable income are predicted to create a challenging backdrop for retailers in the coming year. In response, we remain vigilant on our core cost base and efficiencies, enabled by our in-season flexibility.

We're confident in our proposition and strategy and continue to invest to drive future, profitable, and sustainable growth. We're just six weeks into our financial year, but performance so far encouraging and in line with our expectations. So, thank you for listening, and we are now happy to take your questions.

Questions

Kate Calvert, from Investec.

Just on the cost side in the year, you just reported, FY17, how much of the 6.3% increase in the admin and payroll was down to bonus being reintroduced?

Craig Lovelace:

I don't believe we're disclosing that discretely. But off the top of my head - there's an increase in variable pay of some £1 to £2 million in year.

Kate Calvert:

Okay. And in terms of the rollout of the new site - I mean, in the U.S., you said there was some disruption, I'm just sort of trying to get a feel for - as you do your monthly rollouts, what are you going to get in the power brands ahead of them actually officially being moved over next year?

Angela Spindler:

The power brand rollout happens after peak. So, we were originally going to put the new developments and the site live on Fashion World. We don't need to do that. We've decided that as we develop the technologies, we'll put them back onto the live site, which is High and Mighty. So, what we will end up with is High and Mighty will be almost a supersite, which will have all of the technical functionality that we're developing in a live environment. We can stress test it, we can trade it through peak. So, when we get to move to the power brands, we'll be migrating data rather than testing new technologies. Those new technologies will all have been tested in a live environment, which is why, when I was describing it, I was saying how pleased we are with this as a program, because the technology developments aren't delayed in any respect, but the risk is minimized from a commercial perspective. So that's the sort of benefit of the new plan.

Adam Cochrane:

It's Adam Cochrane, UBS. First of all on the product gross margin what sort of assumptions have you made for mitigation within that guidance? So what is sort of the gross amount, you know, in pound notes from FX and then the mitigation or in basis points, something either way?

Craig Lovelace:

So we've given the sensitivities in terms of anticipating the sensitivities on FX going forward. Clearly at the current time we've got a hedging policy in place. We're alive to that. Movement of rates we can't control but we are effectively trying to fix our buying rates as close as possible with our hedging rates. So we're not calling out discreet elements of what we've disclosed already but we're mitigating as much as we can at the current time. And the rest as we've called out is then through better buying, consolidation, and the move of our supply chain on an ongoing basis.

Adam Cochrane:

Okay. So what's the hedge rate for FY18 on '17 in USD?

Craig Lovelace:

1.27 is our hedge rate. And then 1.41 as a blended rate for the year just reported.

Adam Cochrane: Okay. Thanks. And then secondly on the US it sounds like you've become a little bit more positive on it. What is it that you're seeing from the US in recent months that made you want to sort of reinvest more in it?

Angela Spindler:

We've always been really positive on the consumer proposition and the opportunity in the US and that's never diluted. What we chose to do and it sort of speaks to the conversation we were just having about Fit 4 the Future was use the US as the first live site on Hybris for two reasons.

First of all it meant we get the new improved experience for shoppers live in the US early. But it was also lower risk from a commercial perspective because our business was relatively small. So we pulled back on marketing in anticipation of doing that, knowing that we were going live for the first time. Also knowing that we were ensuring we were getting the core functionality live and there were other things we wanted to add before that experience was as good as we wanted it to be and then started our investment profile. So we've basically stalled six months but we did kind of share that that was our intention. I guess there was one thing that we called out last time we spoke which was an impact of a slight delay on the US site of around a month or so which was we had a marketing campaign designed for the peak period in the USA which we were going to put in after going live. And actually that ended up being in the Hypercare period so it was somewhat redundant spend. So it wasn't nearly as effective as it would have been had the technology gone in earlier. But outside of that it's exactly as we had anticipated. We put four follow-on releases live which have now got the USA up to the level of functionality we are happy with and that we have scoped in terms of the Hybris experience. So we're ready to step up our marketing and move forward with growth in the US.

Adam Cochran:

Would the expectation be for the US to remain in loss next year, just that loss depending upon sales versus investment?

Angela Spindler:

New customer recruitment is as you know more expensive than retaining existing customers. So as you move into new markets you do accept that that is a dilution in the medium term. So when we've guided to costs for the coming year the 3.5 to 5.5% increase in opex it does include a step-up in marketing investment for the US.

Andy Wade, Numis

So the first one. I appreciate you've given us a lot of detail in terms of the FX piece and the hedging and so on. But it feels like the way you guys are talking about it is a bit different from how other clothing retailers are talking about it in the sense that it feels like for them the price is the balancing figure to get the gross margin. It is what it is. And for you guys the profit feels like it's the balancing figure with the price more fixed. In the sense that your profit it seems like we're going to see more of a variation than others are talking about. Am I thinking about that all wrong or is that a conscious decision that you guys have made to talk about it in that way?

Craig Lovelace:

I certainly haven't seen it as that way. We're ultimately trying to mitigate the effects as much as we can. We are well aware of price and the sensitivity to our customer base of price. So we are not going directly to price to start with. We don't see profit as the balancing act. I mean ultimately we are looking at profitable growth. But that's not the way I would - that's not the way I would portray it.

Angela Spindler:

Just on building on what Craig's saying in terms of our proposition in the market because I guess it sort of speaks to that to some extent. So our ability to improve supply chain sourcing capabilities - we still have some way to go. We've made fantastic improvements, Ralph and his new team. But we worked as a catalogue retailer historically which doesn't sort of lend itself to the flexibility and speed of response that drives your ability to mitigate or improve your trading profitability.

Rather than coming through as increased trading profitability it's coming through as a way of mitigating FX which we've still got in our toolkit whereas others who are uber efficient - I won't call out who they are but I guess you would know - have less places to go to mitigate that headwind. The other thing I would also call out is that, you know, we have seen a really good response to giving our customers really competitive value for money. And so we want to retain that within our strategy. And The Cut campaign has been a really great example. From a cash margin perspective, you know, that works really well. So we're not a slave to the percentage. We are really trying to drive our relationship with customers through the clever and, you know, positive, use of price.

Andy Wade:

Do you expect over the course of the next 12 months your price position to improve relative to others?

Angela Spindler:

So we are - apart from when we choose to be extremely assertive on price with campaigns like The Cut so it's a part of a really concerted multi-channel marketing campaign - we're a price follower, not a price leader. So we benchmark our pricing. You know, on JD Williams we benchmark ourselves against the likes of Marks and Spencer and Next most typically. And we make sure that we are offering our customers in relative terms good-value for money versus them. If the market moves aggressively, and if it did it would be I guess for reasons currently not forecast so, you know, if sterling really crashed for example then we would continue to use that reactive model. We would not go first and we would not go most on price.

Andy Wade:

Very helpful. Second one. Craig, you mentioned a few times tranches of older debt sold. Apologies, I might have missed if you called it out. Was there much of benefit to the P&L from that?

Craig Lovelace:

We didn't call it out so you didn't miss it. But we haven't called that specific amount because compared to prior years it's relatively de minimis. So it's just a question of de-risking the book. And ultimately the more you sell the less you've got to sell in the future.

Andy Wade:

Okay. And then the final one. In terms of JD Williams. Obviously strong performance there. Is that slightly flattered by transferring customers out of Fifty Plus into JD Williams? And so, when some of that is done we should be looking at a lower underlying growth rate or is that - is that sort of the growth rate?

Angela Spindler:

No. It isn't as a result. I mean the migration of Fifty Plus has only just started. I think what you see on JD Williams is we have our marketing investment is skewed now to JD Williams. So the Fifty Plus shopper isn't benefiting from that TV ad campaign because it doesn't relate to that brand title. So that migration has only just begun. So it's not no.

Matthew McEachran:

Could I just ask a couple of questions about the securitization? You've obviously allowed you a better utilization of that facility, 270 from 250. Is that the facility fully utilized as it stands?

Craig Lovelace:

No.

Matthew McEachran:

No. So, what is holding you back from utilizing it in full? And why would you not do that?

Craig Lovelace:

The leverage covenants to a degree. There are certain limitations within the facility. That is one. We're mindful clearly to retain a degree of headroom as well. So that's another point. Ultimately, we'll only draw down what we ultimately receive to drive working capital or support working capital.

Matthew McEachran:

Yeah. Okay. So if the plan is successful going forward and the debtor book starts to show some decent growth do you have an arrangement in place, with I'm assuming it's HSBC, to actually grow that element of the securitization?

Craig Lovelace:

So HSBC are very supportive and long term bankers to the group. And ultimately, if the securitization needs to grow because of growth in the debtor book, then you're going to get the profitability coming through to support that anyway. So, that's a wider debate on the facility as a whole. But we have a very strong relationship on that.

Matthew McEachran:

Okay. Thank you. And in relation to the redress outflows you've talked about, I was a little surprised that you're expecting the outflows to be ending in FY20. Could you just talk a little bit

about the redress split between payments to customers that are still customers, and cash payments to prior customers that are no longer active with you?

Craig Lovelace:

So, we don't split it that way. I ultimately just look at the future redress, given that this can go back to purchasing the products made as far back as 2005. Actually, it's almost irrelevant, in some respects. Some may be still customers, some may not. Just to be clear, the outflows, year-on-year, we've anticipated really going all the way up to the deadline, which is now August 19. We've also assumed the fluctuations on that, as much as we can, given the extension of the deadlines. But no, we haven't called that a split, definitively. It's really just the impact overall.

Matthew McEachran:

But some of it will be, again, credits, rather than cash settlement?

Craig Lovelace:

To date, it's primarily been cash. Absolutely, because of the age of the products and the nature of the claims.

Matthew McEachran:

Yeah. Okay. Thanks. The last question was on Fit for the Future. So, the timing of the project is unchanged. The gross benefits you anticipate are unchanged. Could you give us a little flavor as to whether you feel that the need for reinvestment has increased or reduced, compared to what you might have thought a year ago? I mean, you haven't said the number at all. But I can see there's reinvestment in the current year. Do you think that's likely to be the trend as you go forward, and actually, the gross lend-up with quite a small net saving, which I think will release down to quite a reasonable amount of net savings by FY20?

Angela Spindler:

So, we are confident in the benefits case. And that has not changed. We talked about some of the benefits flowing from next financial year, and flowing through to 2020. That hasn't changed. So, some of the things that we've done have already gone live. We're getting benefits from the merchandising tools that we're using. But there is no change as a consequence of what we are announcing or experiencing in the benefits case or in the way that it flows. So, as we've said in the past, it sort of splits into three buckets - the demand generation, the margin improvement, and the costs. And the split has also not changed. Yeah.

Joe Spooner - Jefferies:

You touched a number of times in the presentation some of the answers on the potential for buying gains going forward. What role does the Bangladesh office have in that? Can you just give a sense of how much of the sourcing that's now handling, and the potential for that - to handle more and drive more efficiencies?

Angela Spindler:

Yeah. I think, in that particular instance, it was about, you know, going direct rather than using third-party agents and the fees associated with that. So, that in and of itself was a cost-related move. We are not about seeing up big offices in other parts of the world. What we are about is ensuring we're buying the right product, at the right price, from the right place. And you know, expertise and volumes really help us to work out what the map should like, relative to our range. So I think what the team have done is really taken a fresh look at the world of sourcing with things like speed, into repeat, some new products playing a part in that.

So, for example, I talked there about our Simply Be Unique collection and how successful that's been. There's a subrange within that; party dresses under £30, which we call "Simply Be By Night." Really successful over Christmas. We source this from Leicester, on really really short lead times.

So I think it's about flexibility and about when we're in that market, what is the optimal way to do business in that market. And Bangladesh, we have grown as a consequence of being there, but that's because we found great source of supply, and we've been able to negotiate really good costs.

But I wouldn't want to imply that we are going to be opening offices all over the place. It's sort of almost on a market-by-market basis, where we want to optimize efficiency.

Andrew Higginson

Okay. Thank you very much, indeed, for coming. And most of the team will be here if you need to pick up with them afterwards. Good luck for the year ahead.

Angela Spindler:

Thank you. Thanks, everyone.