



N Brown Group Full Year Results FY18

26<sup>th</sup> April 2018

**Angela Spindler:**

Thank you for coming along today and joining this morning. I'll just point out we've got a few of the team here - you might have mingled over coffee. So, we've got Ralph Tucker, Ann Steer, Steve Johnson - these guys you've met before. I'm also delighted to introduce a new member of the team. We've got Adam Warne sitting on the front row there. Adam is our new group CIO, joined us from AO.com earlier this month, so, hope you've been asking him lots of tricky questions about our technology agenda! But it's great to have Adam on board.

We've also got Bethany Barnes here, known to many of you. I am disappointed to announce that this will be Bethany's last set of results with us but delighted to announce that she's expecting a new arrival in September. I somewhat think that's old news, but she did want me to point that out in case anyone was thinking that she'd been in the north eating too many pies! But I do want to say, I'm sure you know and appreciate the positive difference that Bethany has made to our IR efforts. I wanted to take this opportunity, even though she is still with us for a few more months, to thank her, congratulate her, and wish her all the best for the future.

In terms of introductions, I am nearly finished. I also want to introduce Matt Davies, who's joined us this morning. So, just to be clear, Matt joined us as an NED and chairman designate in February and doesn't take over as chairman until May the first. Matt, were you just going to say hello?

**Matt Davies:**

I was just going to say good morning, everyone. Nice to see some familiar faces and to meet some people I've not met before. So, as Angela said, I officially take over as chairman on the first of May. I leave Tesco on the 30th of April, so not much respite for me, but really looking forward to working with Angela and the N Brown team.

It's a great business, great bunch of people, as you'll see from what Angela and Craig take you through. Loads and loads of positives and some really stellar numbers coming from much of the business. At the same time, it's a really tough retail environment, as we all know, and the business is still navigating its way through some pretty complicated legacy issues. But really looking forward to chairing the business and to meeting many of you over the months and

years ahead. Thank you very much.

**Angela Spindler:**

Okay, thanks, Matt. Delighted to have Matt on board. So, in terms of this morning, I'm going to give you an overview of the headlines for the year, and then Craig is going to take you through the financials, and we'll also talk to the performance of Financial Services. And then I'll give you some more insight on performance and share progress specifically on our growth levers.

Firstly, by way of overview, we're pleased to have delivered year-on-year profit growth in what has been a challenging period of the sector, and I would call out specifically a really strong performance from Simply Be. We'll talk more about that later.

We're making good progress with our three growth levers, with share gains in the U.K., H2 revenue growth of 21% in the U.S.A., and new partnerships to announce today with The Iconic and Lamoda. All of our growth levers are solely focused on the online channel, and we continue to support that with technology enhancements.

Our Financial Services business delivered very strong profit growth in the period, and this outperformance gave us the financial resiliency which enabled us to trade our way through the golden quarter, to drive sales, and to manage our stock position.

And finally, on current trading, March was a challenging month for the retail sector. Clothing and footwear sales in particular were impacted by cold weather which, as ever, delays the start to the Spring Summer season. However, through April trade is improving, and at this early stage in the new financial year our overall expectations are unchanged.

So, I'm going to hand over to Craig now to give you a financial overview and to talk about financial services. Craig?

**Craig Lovelace:**

Thank you, Angela, and good morning, everyone. Before I start, I'd just also like to add my personal thanks to Bethany. It's been a lot of fun. Some highs; thankfully, not many lows. I have offered to do some childcare for October, but unsurprisingly, she's turning me down at the moment!

Anyway, before we go into detail, financial summary first. So, Group revenue was up 3.9%, with product revenue 4.1% and Financial Services revenue up 3.5%. Product gross margin was 250bps, and Financial Services margin up 550bps.

The combination of the two results in a group gross margin decline of 20bps. Group trading profit was up 1.3%, with EBITDA up 2.3%. Group adjusted EPS was 23.06 pence, marginally up on last year. And net debt was in line with guidance and significantly exceeded by the customer loan book.

Finally, we are holding the dividend consistent with last year as we continue to invest in the business.

Turning to revenue by quarter - as you know, trading conditions were tougher across the market during H2 and we were not immune to this. H2 was also impacted by 50bps by lower postage and packing revenue due to increased use of delivery promotions. And performance in the eight-week Q4 period also reflects a tough comparative.

Financial Services growth of 3.5% was a good result. In H2, revenue grew by 5.7%, reflecting a good product performance in H1, improving credit book quality and the changed minimum payment terms, which I'll come to later on.

Turning now to look at revenue by brand. Simply Be continues to be the standout performer. JD Williams was up 3.25%. As you are aware, we had a headwind from recently migrated Fifty Plus customers. Excluding this drag, JD Williams was up low double digits for the year. Angela will talk more on this later. And finally, Jacamo was up 5.1%. So, overall, Power Brand revenue was up 8%.

Secondary brands were down 3.8%. The largest brand within this, Fashion World, was up in the first half, but down double digits in the second half, as we diverted marketing investment into our power brands. Figleaves revenue was down low single digits, in line with expectations, with the brand partway through its turnaround, led by the new management team. High & Mighty revenue decline was driven by disappointing footfall in its small store state.

Revenue in the traditional segment was up 3.3%, as the actions we took to address performance continued to come through. Going forward, we will focus on the online channel within traditional, and would expect the offline element to therefore reduce over time.

Turning now to revenue by category. Ladieswear revenue was up 4.3%, with own-brand ladieswear outperforming, driven by our new design capabilities. The 8.6% increase in footwear and accessories is also driven by our new capabilities, with designers added in these areas over the past year. Menswear was up 4%. And as we've talked about, Jacamo was ahead of this. And finally, home and gift revenue was up 2.3%.

So, now, just to give some more detail on gross margin movement, and, I think it's important to say, overall, FX accounted for slightly more than the entire decline in gross margin. The FX cost headwind in the table refers to indirect costs. As you'll remember, around half of our purchases are sterling denominated. But here we're still exposed to weaker sterling. We also have a direct effect headwind due to different dollar rates, year on year. And for the year, this amounted to a circa £10m headwind, which, as you can see, was H1 weighted.

We continue to improve our buying, with margin up 140bps in H2 as a result. As you know, we chose to invest in promotions in H2 to continue trading momentum and gain market

share. This was enabled by the strong performance of Financial Services, and a small element was funded from marketing costs. We continue to use postage and packing as a promotional tool. P&P appears as a 100% gross margin, and lower P&P revenue, therefore, represents a headwind, which we saw in the second half.

Just touching a bit further on FX sensitivity, roughly half of our net annual purchases are made in dollars. And here we have a hedging strategy to enable us to have clarity over our buying rates. We're now entirely hedged for this forthcoming year, and the change in the hedge rates, year on year, equates to a circa £3m tailwind. For FY20, we are 43% hedged, and at a spot of 1.40, there is a similar tailwind. We've also shown, on this slide, the sensitivity on the unhedged element from changes in spot.

The same on Financial Services gross margin, this slide gives a similar bridge. For the year as a whole, you can see that three factors influenced the gross margin movement, in broadly similar quantum: The improvement in the underlying quality of the book, Financial Services initiatives - such as variable rate interest trials - and finally, the change in minimum payments.

For the first half, these first two factors were the primary drivers of gross margin performance. We carried out a debt sale this year of similar size to last year's sale, and for the year overall this was therefore broadly neutral in terms of gross margin, with the timing differing. The sale was in H1 last year and H2 this year, therefore the effect on gross margin in the two halves.

Turning to the second half bridge, the largest benefit to gross margin was from the change to minimum payments. This is primarily due to the reduction in customers going into arrears, which has had a big impact on provision rate and therefore margin. More on this to come later. And other initiatives also benefited, to the tune of 270bps, and we again benefited from improvement in the underlying quality of the book.

Moving further down the P&L to operating expenses. Operating costs continue to be totally controlled, increasing by 3.9% and 2.7% in the second half.

Warehouse and fulfillment costs were driven by volumes, up 3%, together with inflationary cost increases and further investments in our delivery offering, partially offset by continuing efficiencies. The increase in warehouse and fulfillment slowed through the year.

Admin and payroll costs were also weighted toward H1. Within this line there's an element of IT double running costs, and we also continue to make investments in recruiting and developing talent in the business.

We tightly managed marketing costs in order to support investment in promotional activity, with overall cost growing significantly below the rate of product revenue growth. In the second half specifically, roughly two thirds of the £1.5 million increase in marketing costs relates to the U.S. And finally, depreciation and amortisation was up 1.9% in the year. The overall change

was a bit below guidance due to the timing of spend between FY18 and FY19.

So, at a group profit level, finance costs increased in line with the movement in net debt and indeed the changes to the Bank of England base rate increase. We saw quite a change in the unrealized FX movement, this being a mark to market accounting outcome, so was impacted by the significant change in rate versus forward contracts.

Our effective rate of tax was 23.4%, with the overall charge of £3.7 million being impacted by the level of tax deductible exceptional items in the year. The significant step-up in exceptional costs resulted in a statutory net profit of £12.5 million, compared to £44.3 million last year.

And now, just touching briefly on those exceptionals, and clearly, we talked about these at the interims. We incurred a £40 million charge for customer redress related to historic general insurance products. We continue to explore mitigating actions to reduce the overall cost, although I would expect this to take a period of time. The vast majority of the cash will leave the business in FY19.

During August we closed five stores and have booked an exceptional cost as a result. The performance of our remaining store state, accounting for just 2% of Group revenue, declined materially in the second half, resulting in a negative profit contribution for the year. This was driven by disappointing footfall in line with the wider high street. We remain focused on addressing the underperformance. Finally, as you know, we have ongoing tax disputes with HMRC, and this resulted in a £3.1 million cost in the year, £2 million incurred in H2.

Of the £56.9 million, £1.1 million was incurred in cash in the first half and £9.3 million in the second half, and we also saw £17 million cash outflow from previous exceptional items during the year.

And now, onto the balance sheet. Briefly, inventory levels at the period were up 4.8%, broadly in line with product revenue growth rates and reflecting increases in current season stock. Creditors were ahead of last year with the increase reflective of improvements in our creditor management processes and the standardisation of buying terms, where previously some suppliers were paid almost immediately. The higher provision figure reflects the exceptional costs. Finally, our retirement benefit surplus has increased due to the increase in gilt yields.

Balance sheet refinancing. So, as we flagged in January, we've carried out a refinancing exercise to enable our future growth. Previously, our total funding of £405 million was made up of a revolving credit facility of £125 million and the securitisation facility of £280 million. Given the size of our loan book at almost £600 million on a net basis, and the improvement in its quality since the previous refinancing in 2015, there was an opportunity to increase headroom given an effective advance ratio of just over 50%.

To this end, we have recently signed the binding documents, in respect to the new £500 million securitisation facility - so, a significant expansion. The advance ratio is now approximately 70%, and far more in line with other similar books. We've also extended our £125 million revolving credit facility. The key feature of the new RCF is that the leverage covenant, which was historically based upon total group net debt, is now only based upon the level of the RCF which is drawn and therefore excludes the securitisation debt entirely. The pricing rates are comparable to our existing facility, with an overall increase in costs, given the larger facility size. This is reflected in our interest guidance.

Turning to look at receivables, our closing bad debt provision was down 69%, with a rate of 7.5% compared to 10.8% last year. There are three dynamics at play here: broadly half the decrease was due to the sale of some high-risk payment arrangement debt, as we did in H1 last year. The risk profile of this debt reduced the provision rate significantly. We also continued to see an underlying improvement in the quality of the book. And thirdly, the changes we made to minimum payment terms resulted in an improvement in our arrears rate, again reducing the provisions rate. These last two factors had a similar impact, although they were partially offset by average balance growth, which is a great sight to see and really bodes well for the future.

So, onto IFRS9, my favorite topic. And I do mean IFRS9, not IFRS16 - even though I know many of you in the room are IFRS16 experts. IFRS16 for us is mercifully quite immaterial.

So, IFRS9, as we touched upon in January, this is a significant accounting change which comes into effect in FY19. As you know, under the existing standard, IAS39, a provision is only made whether there's been objective evidence of an impairment, such as a customer falling into arrears or moving onto a payment plan.

Thus a large proportion of our customers are not included in the provision calculation. Under IFRS9, a provision will be made against every credit customer, regardless of whether there's been such an indicator of impairment or not. This means we will make a provision against the circa £500 million of customer balances which are up to date and trading normally.

In addition, previously we've only provided against a customer's current balance, whereas the new standard requires us to take into consideration customer's expected future balance. Our strategy in Financial Services has always been to initially extend low account limits to customers and then increase the limit over time in accordance with the customer's payment behavior and risk profile. Basing our provision calculation on a customer's expected future balance is, therefore, again, a significant change in approach.

And finally, under IFRS9, we're required to reflect potential changes in the macroeconomic environment and the impact they could have on our customer loan book, which again is not currently required.

So, there's therefore a number of very big changes between the provisioning methodology of the two standards. We're still finalising our modeling analysis. However, we do expect the

IFRS9 will result in a significant increase in the rate of provisioning. We estimate that the rate could increase from 7.5% reported in FY18 to a maximum of 27%. Based upon our current provision of circa £50 million, we would therefore expect to see an increase of up to £120 million, and an associated reduction in net assets in FY19.

One of the final aspects of the modeling and analysis being done relates to whether or not undrawn credit balances should be included or excluded from the calculation. Interpretation of the new standard differs in this regard. And, working with our auditors, we are still assessing the treatment of undrawn credit balances. The exclusion of undrawn credit balances would materially reduce the provision by, we estimate, approximately half the potential increase. Given that the charge to the income statement is based upon the year on year movement in provision, in the absence of any other significant macro-economic changes, changes in the quality of the book or the risk profile of new customers, we expect the P&L impact in FY19 to be broadly neutral, versus the FY18 restated results.

We do expect to see a shift in the phasing of the charge, with H1 expected to see a positive impact, and H2 negative, reflecting the seasonality and customer recruitment, and indeed, arrears rates. Importantly, we anticipate no cash flow impact or material change in how we operate our financial services business.

Cash flow. So, this slide shows cash flow movements through the year, and full tables are, as always, in the appendix. So, we saw cash outflow for exceptional items of £27.4 million. Receivables grew in the period by £64 million, which was driven by the strong underlying loan book growth together with non-underlying loan book movements, namely the changes to customer minimum payment terms, partially offset by debt sales. Excluding the growth in our receivables book, we saw a small working capital improvement driven by the initiatives I've mentioned previously. And finally, capex and dividend payments were in line with previous years.

Moving to guidance. Today we're providing the following guidance for FY19. Product gross margin flat to up 100bps, Financial Services gross margin down 100bps to down 200bps, Group operating costs up 1.5 to 3.5%. So, clearly, the H1/H2 shape of these three metrics is going to be substantially influenced by the quite different comparatives of the two halves.

And within the operating cost guidance I would expect warehouse and fulfillment to grow ahead of this range, driven by both volumes and service investment, and marketing costs to continue to be tightly controlled.

And then the remainder of the items: Depreciation and amortisation, £32 million to £33 million, net interest £12 million to £13 million, reflecting our new extended financing facilities, tax rate of circa 22%, and capex again consistent at circa £40 million.

Net debt guidance is £425 to £450million, which assumes a £25 million to £50 million growth in the Financial Services customer loan book. And finally, exceptional costs of circa £4 million

related to advisory fees associated with our ongoing legacy tax cases.

So, I'll now give a few brief slides on Financial Services. And this slide shows our Financial Services KPIs. Our arrears rate declined by 120bps, helped by the improving quality of the debt book and the change to minimum payments. Our provisions rate was down 330bps, as I've already discussed.

We've seen a slight slowdown in new credit customers who rolled a balance with a decrease in the second half. This was in line with weaker trading performance and followed an increase in the first half. For the year as a whole, we therefore added 257,000 new credit rollers, an increase on the prior year.

During the second half we commenced our variable rate trials for new customers and a small proportion of our existing customer base. Whilst the trials are still ongoing, early indications are positive, and approximately 50% of trial customers have seen a rate decrease.

And finally, I just wanted to give you some more detail on the change we made to minimum payments. Historically, our minimum payment rate has been 5%. Given continued cost of living pressures, in order to give our customers more flexibility to manage their finances we made the decision to change this to 4% at the end of the first half. This change had a positive impact on the level of customers who were in arrears as the reduced monthly rate made the minimum payment more affordable, with customers in arrears down 6%. In addition, it also meant that those customers who didn't change their monthly payment now pay above the minimum amount, which will result in them paying off their balances faster.

We've seen a 10% increase in the proportion of customers who pay above the minimum amount to approximately 60% of our customer base. As I noted, this represented a cash flow headwind in the year, with the average proportion of customer balances being paid each month decreasing by one percentage point. The cash flow impact is expected to normalise over the next 12 months. And with that, I'll hand back to Angela.

**Angela Spindler:**

Thanks, Craig. So, Craig has reviewed our financial services KPI. This slide provides an update on the other measures that we share. The full tables in respect to these are in the appendix but let me just call out a few. We're pleased with our active customer growth of 3.6%, particularly against the challenging backdrop. Our most loyal customers were broadly flat against a very tough comparative, but this was influenced in the short term by brand migration, and I'm going to come back to that.

I'm particularly pleased with our latest customer satisfaction score. This is independently measured by the U.K. Institute of Customer Services. Results are issued every six months and are made up of almost 50,000 customer responses. As you can see, with a score of 85.8%, we are number two in the non-food retail sector, behind only Amazon. We're 210bps ahead of our last score, and we are almost four points higher than the sector average.



Turning to our online KPIs, our online growth was 10%, and that was 17% for the power brands. Online penetration for new customers has now exceeded 80%, and over three-quarters of our traffic is now coming from mobile devices. Our online growth has been underpinned by shifting our marketing investment out of print and post. And this is planned to continue through the year.

Digital marketing investment is both in people and in media. Another key driver of performance is page load speed, with mobile page load speed improving by 19% during the period. The Simply Be app has been live for around a year, but in time for peak trading this year, we launched apps for Simply Be in the USA and for JD Williams. The JD Williams app was developed in-house. We're continually improving our offer, including features such as recently viewed items and predictive search. Our app score rating is currently 4.8 out of 5. We also supported online sales by providing delivery subscription offers on the Power Brands, with customer take-up being very positive.

And finally, our product KPIs. We're pleased to report market share gains both in ladieswear, up 60bps, and menswear, up 30bps. Market share growth was supported in the period by our trading efforts, particularly in the second half.

This slide shows the shape of our promotional investment and supports Craig's commentary on the dilution to gross margin by showing absolute promotional spend by month. You can see that the cyber trading period significantly outperformed. We've also invested in promotional spend through the sale period of January and February, to ensure we exited the season in a good position on stock.

We made the investment to improve our market share position in a difficult trading period for fashion retail, and we chose this approach knowing our Financial Services performance was strong for the period and would underpin our overall profit delivery.

We are market leaders in the size 20 and above female fashion market. Our position has accelerated in the year, gaining almost 200bps. This chart shows market share for the top six retailers in size 20 and above, and it uses dresses to demonstrate our exceptional choice in both size 20, shown in the dark orange column, and size 26, which is shown in the light orange column.

Choice plus fit underpins our significant leadership position and we will build on this going forward. So, for example, we have industry leading capability in fit, and we are further improving our fit accuracy by moving to digital fit technology using 3D avatars, allowing us to design accurately for all sizes. To ensure that our fit is perfect for customers, we undertook an extensive research activity in the UK using body scanners to gain exact body size readings for thousands of shoppers. Based on this data, we have adjusted our size blocks and applied the new dimensions to a number of lines to test our findings. Early results are excellent, and we plan to roll out digital fit across womenswear this year.

Our product offering also continues to go from strength to strength, with a constant focus on shape solutions. Our shape and sculpt denim range has been extended to keep up with demand and features premium multi-waist stretch denim that holds its shape, has a hidden tummy panel for a slimmer silhouette, clever seams, and a curved back yoke, all to ensure we have a fit that flatters.

Moving onto Power Brand performance, Simply Be revenue was up 16.3%, with active customers up over 20%. Following a soft launch to a selected group of customers, we recently rolled out our loyalty scheme, Simply Be Perks, which gives customers personalised rewards in return for engagement. We saw great results from our initial trial, with sessions up over 30% and demand up double-digit versus the control group. Customer take up since full rollout has been very positive.

This season, we've launched our new campaign, "Rules Rewritten." As a part of the campaign launch, we held a London Fashion Week protest on size representation on the catwalk, with a group of lingerie clad models ranging from size 12 to 26, led by Hayley Hasselhoff. The protest had a great reaction from customers across social media. Our latest TV ad is our boldest ever, and it proudly and unapologetically champions curves. So, I'm just going to show you that.

#### VIDEO PLAYS

Next, onto Jacamo. Revenue on Jacamo was up 5%, with active customer numbers up high single digit. Our new season campaign here is called Live Your Moment and features high jump champion Mike Edwards and celebrity chef Tommy Banks, who became Britain's youngest Michelin-star chef at just 24. This campaign builds on the work we've been doing for several seasons to further strengthen our style and fashion credentials in Jacamo, and it's easiest to see this in our Freddie Flintoff range.

We've worked with Freddie for six years now, and the fashionability and style of his range have significantly improved, as can be seen in these images. So, those at the top are from our first range with him back in 2012. Those at the bottom are our latest Spring Summer campaign. So, sharper, smarter, and more fashionable.

JD Williams was up 3.2% for the year. However, we had a challenging second half due to the impact of migrating Fifty Plus. Excluding this, JD Williams revenue was up double digit for the year.

During the Autumn Winter season we launched JD Williams: The Lifestore. This positions the brand as a modern online department store for the 45-to-65-year-old woman. The brand relaunch was a great success, with a 21% increase in new customers following the relaunch, a 13% increase in brand awareness, and a significant increase in both web sessions and social media fans, up 19% on Facebook and 58% on Instagram. JD Williams has been one of our

fastest growing brands online, with revenue up 19% and penetration now approaching 70%. This compares to just 40% five years ago.

This slide shows some of the activities to support the new brand proposition. The brand relaunch coincided with the launch of a report produced in conjunction with YouGov exploring the attitudes to life, shopping, and fashion for the over-45 female. As a result of this, we are binning the terms “middle-aged” or “midlife”, because that's usually followed by the word “crisis”, and we are calling this population of women “midsters”. This customer is very engaged on social media, and we had a great response when we reproduced the recent Victoria Beckham glasses campaign using a 43-year-old size-16 model. The photograph in the top right here is the celebrity FROW at JD Williams’ fashion show held on the eve of London Fashion Week. It was an industry first. All of the catwalk models were aged over 50, and you may recognise some of the faces here. I’m looking into the audience; I suspect you'll only recognise them if you yourself are over 50!

You can see here as well a representation at the bottom of the images we now use in our paper publications. We've moved from a catalogue to a lifestyle magazine with editorial, fashion, style tips, as well as great presentation of our product.

So, just to recap on the migration of Fifty Plus, it's crucial that as we move online we remove brand duplication, enabling us to point our traffic at fewer bigger brands. This improves the ROI from our performance marketing, and it ensures that we reach large existing audiences with all of our above-the-line media spend.

Over the past five years we have removed around forty catalogue titles, and we've successfully migrated five brands into JD Williams. Fifty Plus is the largest migration we've done, as the figures on this slide show. The typical Fifty Plus shopper shops in the same way as our JD Williams customer; that is, predominantly online. Following the migration, however, we saw a slower response rate from migrated Fifty Plus customers, and this caught us out somewhat. The reason for the low response rates was that, whilst they are online shoppers, the product selection they typically purchase is more classic from a fashion perspective. The relaunched and more contemporary JD Williams site was therefore not resonating with them as effectively as anticipated. So, corrective actions have now been taken to address this, including email reactivation.

And most importantly, personalising the site for this customer group, to ensure that they're presented with the most appropriate product selection for them. So, the two home pages here illustrate this. So, at the top is our standard JD Williams homepage, showing a contemporary fashion offer, whilst the bottom shows a JD Williams homepage with a more traditional product image. While it's still early days, the initial results from these actions are very encouraging.

So, onto a brief update on progress on our growth levers. All of our growth levers represent online opportunity. Our success is predicated on our continuing journey to become a world-class online retailer. In terms of gaining share in the UK, we've already covered our market

share gains so I'm not going to dwell on this. We've recently integrated our supply chain, putting logistics into the same function as product sourcing, buying, and merchandising, and they're all now led by Ralph Tucker. This was to enable an aligned approach across the supply chain. Our new team will focus on improving our end-to-end processes and our service from factory floor to the customer's door. We've made strong progress this year, shaving another half day off our standard delivery times, and have also driven loyalty, helped by our Power Brand subscription offer.

We've talked in the past about the significant improvement we've been making to our lead times, enhancing our in-season flexibility. Our work here continues. For instance, our lead time on Far East sourced denim has improved by 50%, from 12 weeks last year to six weeks today. Similarly, we've reduced our average lead time for jersey products by four weeks.

In category development, we've recently expanded our athleisure offer. Sportswear revenue was up 25% in H2, with strong performances not just from third-party brands such as Under Armour and Adidas, but also from our own brands, such as Snowdonia, which was up 50%.

International. We recently went live with Global Ship Anywhere technology, this opens the door to expansion beyond the USA. Essentially, this means customers from a wide range of countries can shop on SimplyBe.com with orders and duties initially fulfilled by a third-party provider. Analysing traffic will give us valuable insights into which markets represent the biggest opportunities for us as we look forward.

Our key market opportunity, however, is the USA. And we're pleased with our H2 performance, up 21% in constant currency. This was a result of our new digital marketing approach, which we've been pioneering on Simply Be and we'll roll out to JD Williams in the coming season. I'm going to show you our recent online content to drive athleisure in the US. This is not an ad, it is online content. The video I'm going to show features Sarina Nowak and La'Tecia Thomas who are plus models and bloggers in the US with millions of followers.

#### VIDEO PLAYS

So, the week after that video was released online, traffic was up 67%.

This style of influencer marketing sits in our partnership strategy, and it's a growth opportunity for us, enabling our brands to reach new audiences and further strengthen customer engagement. The technique is effective, both in the US and in the UK.

We've developed eight online selling partnerships over the last 18 months, and I'm pleased to be announcing two more today, with The Iconic in Australia and Lamoda in Russia, both initially with capsule collections from Simply Be. These follow our recent launches on ASOS and Zalando. As you know, as our proportion of our total group today, these partnerships are still quite small. However, we're starting to see material volume commitments coming through, and this will be a more significant contributor over the next three to five years.

So, in summary, and looking forward, we've further reinforced our market leadership position. We're a clear number one in plus size, increasing our lead through relentless focus on our size and fit capability. We continue to strengthen our power brands both through customer migration and, importantly, organic growth. We are predominantly an online retailer, making our proposition increasingly relevant as customers change their shopping behavior. Our prospects for international expansion are strong, and our partnership portfolio is establishing and represents an incremental future growth history. And finally, our ability to invest to grow is underpinned by both the health of our Financial Services business and our recent refinancing. So, that's it from me. Thank you for listening, and we're now happy to take any questions.

**John Stevenson, Peel Hunt:**

I'll start with the exciting one on IFRS9 if that's all right. My question is, going forward, are we actually going to see the real rate anymore? So, will we be able to look at, you know, what the actual, genuine provision in terms of the historic would be? Or is it just going to be in the bubble?

**Craig Lovelace:**

The bubble becomes IFRS9. So, the 27% maximum that we've indicated is what the provision is likely to be, so there's no separation out of the old and new. That's what the provision rate is.

**John Stevenson, Peel Hunt:**

But from your point, I guess you're still going to run the business in terms of how you...

**Craig Lovelace:**

It changes nothing in the way we run the business at all. From a cash impact, there is no impact either.

**John Stevenson, Peel Hunt:**

I obviously appreciate that. I mean, will we still get to see the data in terms of, you know, your arrears data and sort of how you're thinking about the book.

**Craig Lovelace:**

Absolutely. KPIs don't change.

**John Stevenson, Peel Hunt:**

Okay. And second question. Just in terms of performance, can you maybe talk about some of the KPIs in terms of sort of basket frequency and how customers are behaving online for the Power Brands?

**Angela Spindler:**

Our online metrics for the Power Brands are positive, so we're seeing our online business performing strongly relative to our offline business, which is a trend that's helpful as we continue the journey online. The online metrics that we share, you know, around participation

and growth are clearly positive. And we continue to work really hard on customer journey. You know we continue to have industry leading conversion, even when you look at the fact that 76% of our traffic is coming from mobile. So, pleased that we are, you know, improving conversion by device. Obviously, it is impacted by the mix, but it doesn't change the relativity of our performance in the market. So, good developments there, really supported by technology enhancement.

**John Stevenson, Peel Hunt:**

And just last question for Craig, I guess, in terms of the trial on variable APR. Maybe can you tell us what you've seen?

**Craig Lovelace:**

So, it's been encouraging in terms of bringing new customers. So, for a cohort of new customers to Simply Be, Jacamo, and JD Williams, we offered lower rates if their risk validated it. Generally we've seen some encouraging take-up for new customers into those areas. So, at the moment it's early days, but it's encouraging.

**John Stevenson, Peel Hunt:**

Are there no numbers to be encouraged by?

**Craig Lovelace:**

Not at the moment. I'm encouraged.

**Matthew McEachran, N+1 Singer**

Hi, it's Matthew McEachran from N+1 Singer. Could we go back to the IFRS9 topic and specifically to the undrawn credit balances? Next has already decided that it is not going to be providing for that element.

**Angela Spindler:**

Yeah.

**Matthew McEachran, N+1 Singer:**

It's a massive delta for the £0 to £120 million

**Craig Lovelace:**

Quite

**Matthew McEachran, N+1 Singer:**

You know, provision change for you, why would your auditors adopt a different view?

**Craig Lovelace:**

So, the standard is a highly technical standard. There are elements of interpretation to it. We believe the £120 million increase is the most prudent, which is why we've called out up to maximum 27%. But the interpretation of how you transact with your customers on a day-to-

day basis business, how you assess risk, has to be company specific in some of those respects, and we are still having active debates with our auditors. The disclosures clearly are quite in-depth. I've called this out because I think it's an important fact, and we are still going through this at the moment; hence, as you can see, the impact on us is quite substantive. I expect this to play out over a relatively short period, but we still need to bottom it out.

**Matthew McEachran, N+1 Singer:**

Okay, thank you very much. And then, just in terms of minimum payment, I mean, you've clearly discussed and highlighted what the benefits have been other than the working capital drag. I mean, there's obviously some cynics around in relation to the movement. Can you help answer the question around how it isn't just kicking the can a little bit further down the road? And you know, might there not be a point in time where you might essentially reverse it back?

**Craig Lovelace:**

No. So, there are no plans to reverse it back. We initially started planning for this, as you would do, with a strong governance process, back in the Spring. And it was due to us looking ahead. There was a lot of concern about customer choice, customer flexibility, and of some squeezed customer affordability. So, we went through the usual governance processes, introduced it in June. I think it's fair to say we gave all our customers a choice to change. And the uptake was significant in H2, specifically.

I'm not expecting a reversal. The arrears rate has improved immeasurably, as we've called out. We're still monitoring customers, just as we would do, day in, day out. We're not seeing signs of changed behavior at all, and it's really business as usual from that perspective.

**Matthew McEachran, N+1 Singer:**

Okay. Thank you very much. And then, just in relation to your pricing, there was obviously the decision made in the Autumn Winter season to be more tactical on the pricing, helped by the debt sale and the performance in Financial Services. Could you just help us understand a little bit about the pricing strategy going forward? In your press release, you do talk about it being strategic and tactical.

**Angela Spindler:**

Yeah.

**Matthew McEachran, N+1 Singer:**

Could you maybe just give us a view on your approach to pricing in the new year?

**Angela Spindler:**

Yeah. Well, it wasn't so much our pricing, Matthew. It was our promotional content. So, we really supported customers through the Peak trading period with strong activities. We've got the capability now to be making decisions about activity on a week-to-week, day-to-day basis, based on how consumers are responding. And we took the opportunity, knowing we had the

financial resiliency that we've described to ensure that we continue to grow share through the half, even though customers were clearly feeling the pinch. And so, that promotional investment was designed to do that. So, the content was personalised, in lots of instances. We've been working hard on promotional return on investment. We've got some good tools with respect to that. And you know, and that gives us the confidence that we're investing wisely, even though we knew we were going to dilute margins somewhat to continue that momentum. Of course, the other benefit of doing that is the stock position that exited the season with, in respect of what is now old season stock, and that clearly worked well.

**Craig Lovelace:**

And the one thing I'd add to that is we're focused on overall Group profits as well. And so, as we said before, consistently, just focusing on one element of that is a little bit too binary, as we use our marketing cost efficiencies. We were 0.9% up year-on-year. There have been decisions to choose to promote harder to keep the momentum going, and that's been funded from other areas in the P&L.

**Matthew McEachran, N+1 Singer:**

Yeah. I mean, I think that's probably a good topic for the current trading period, with March having been so difficult, and the timing of Easter having changed. I mean, how agile were you to be able to respond to that, in terms of pulling back on the marketing expenditure in that period?

**Angela Spindler:**

So, two things; one strategic and one tactical. So, as a business, as you know, and you've known this for a long time, we used to start the Spring Summer season in earnest in January. And of course, we don't do that anymore. So, the representation of Spring Summer products in our mix, from January through February, you can see in the numbers that we presented there. We shift the start of the season. That's the strategic move, and it's linked to the fact that online shoppers shop in the moment much more than catalogue shoppers. So, that's one element.

The second element is March was a poor month. It was a poor month for the sector. We're not allowed to use the W word. But you know, clearly, the Spring Summer season doesn't start until it starts. And it didn't start in March. The good news is, it started in April. You'll have enjoyed a bit of nice weather yourselves, I'm sure. And it's material the impact that has on customers' attitudes to new season product.

So, yes, we are able to adjust our investment on a line-by-line, on a range-by-range, on a brand-by-brand basis because we're operating in an online environment. And we did that to sort of optimise our performance through a challenging month in March, allowing us to invest in spring season activity from April and going forward. So, yeah, that flexibility helps.

**Matthew McEachran, N+1 Singer:**

Yeah. Great. Thank you very much.



**Angela Spindler:**

Thank you.

**Joe Spooner, Jefferies**

Morning. Can you just remind us when the Fifty Plus drag bleeds out of the JD Williams trends, as we move forward from here? And following on from that, are there any more migrations to follow within the rest of the portfolio? You scaled back the marketing support as well for Fashion World, when do you envisage putting that back into that brand? And then one more on IFRS9, if I may. I guess the provision is going to be a little bit more volatile moving forward. Is there any implication of that on the securitisation at all?

**Craig Lovelace:**

So, I'll touch on IFRS9. Volatility in IFRS9 can really only come from if you change your fundamentals of how you recruit customers, their risk profile, or the macroeconomic environment. I'm not going to call out anything on the latter because I can't influence it, but in terms of risk profile and how we're working with our customers day-in, day-out, we anticipate no change.

So, the standard is going to move the balance sheet provision up, but it's not going to change ultimately customers' behavior. That's an important factor for the securitisation. So, the securitisation is focused on cash collections from customers. The standard doesn't impact upon that. That's what ultimately our securitisation has always looked at; it's collections ratios, how effective we are on that, and the provisioning around that is, I won't say an irrelevancy, because it's clearly an indicator, but it's not influencing the cash collections, nor will it going forward.

**Angela Spindler:**

And onto the sort of brand-related questions. We migrated Fifty Plus customers in the Autumn Winter season, so it coincided with the relaunch pretty much of JD Williams, which, as we reflect back, we changed two quite big things for those customers, and we are in the process of correcting that. So, it annualises from July of the coming year. However, we are already seeing those Fifty Plus customers who are now JD Williams customers, because we haven't gone back, but we have marketed more appropriately to them, again using our ability to flex our marketing programs by customer groups, and we are seeing the response rates from those customers improve. We would expect to recover through the coming season in terms of the impact on that group of customers. But, yes, it coincided largely with the relaunch of the JD Williams brand, which was just prior to Peak last year.

And then Fashion World. So, we have diverted marketing spend from Fashion World. Part of that was to support the growth that we've been backing in Simply Be. Also seeing strong growth in the USA. We're not calling out specifically our marketing mix in that respect, but they were two priorities for the season which played out well. Fashion World is the first brand that we will migrate on to Hybris and new Financial Services systems in the second half, and so

there's a degree of risk mitigation. You know, any big move of that nature, it's always worth de-risking, which we're doing, but the prospects for Fashion World are good, particularly when we look at the strong performance in our Financial Services proposition today and the benefits that the new systems will bring from a variable APR perspective. So, no dialing down our enthusiasm for Fashion World in the medium term, but certainly a short-term preference to back Simply Be in the USA as we worked our way through H2.

**Andy Wade, Numis**

Hi there. Andy Wade from Numis. Two questions. The first one, looking at the top-line trend, that the sort of stub period, the eight-week stub period, appreciate it is only eight weeks. But you know, -4% and significant gross margin investment over that period as well, so the cash profit level probably near 10% down. That isn't just the market, is it? I mean, especially when you're looking at the online market. You sort of talked about the market being really tough over that period...

**Angela Spindler:**

Yeah.

**Andy Wade, Numis:**

So, I guess the question is, are you concerned by the trend where we have plus 7.5% in the first half, plus 2.7% in Q3, very negative in Q4, and you've still got tough comps to come through the first half of this year?

**Angela Spindler:**

Yeah. So, tough comps in that quarter, as you've called out. I think we were up 7% in Q4 the previous year. I also made the point about when our season starts, so if you look at our business and the shift that we've made materially for the older customer into online trading, then, the season doesn't start in January anymore, which it used to. And therefore, the movement of full-price sales out from January and February, and into the new season proper, from a strategic point of view, that will impact the January/February performance, in terms of the comparatives. So, there was a market impact. We have chosen to move the launch of our new season closer to the season. With hindsight, that was the right thing to do, given what happened in March and the weather, so, those mix of factors really impacted Q4.

**Andy Wade, Numis:**

That was a move between the FY17 timing and FY18, because I appreciate it's been happening over a period, hasn't it?

**Angela Spindler:**

Yeah.

**Andy Wade, Numis:**

But there was as a marked move between 17 and 18?

**Angela Spindler:**

Because if you look at JD Williams, I mean, we've now taken a 140-year-old brand, and it's 70% online. I talked about the fact it was 40% online five years ago. But the step in that has really come more recently. That's our biggest brand. So, if you roll forward the effect of moving your biggest brand to a more dominant online position, that will affect those kind of old catalogue months that were always sort of counted to the retail market. You will see that adjust more heavily. And it was coupled with a difficult trading environment as well.

**Andy Wade, Numis:**

Okay. Thank you. And then the other part, the 7% of balance paid per month. I hadn't appreciated that it was that sort of level. So, if you're sort of looking at interest rate monthly, I don't know where it works out, I haven't gone back and done the maths on the APR, but sort of 3%, is it, that sort of level?

**Craig Lovelace:**

So, APR is unchanged. But it's actually, with some of the variable rate trials, it will change minimally. But it's broadly at that level.

**Andy Wade, Numis:**

Yeah. So that means, net, customers are paying down about 4% a month? Is that right? Because they pay down 7% and they get interest of 3%?

**Craig Lovelace:**

Broadly.

**Andy Wade, Numis:**

Is that right? So, you know, your average customer is paying down 4% of their debt every month. So, that takes them two years, on average, if they don't buy anything else, to pay it back. I'm just trying to work through the maths. Is that about right?

**Craig Lovelace:**

Forgive me, it doesn't sound right initially. I'd need to go back and think about the maths on that one.

**Andy Wade, Numis:**

All right. Okay. I'll talk to you about it later I guess.

**Craig Lovelace:**

We have a very large credit book with a very large cohort paying off over significant periods of time. So, some much, much shorter. Some longer than two years, definitely.

**Andy Wade, Numis:**

Do you have many customers who end up actually paying off the balance in full?

**Craig Lovelace:**

Many. The majority of customers, absolutely. So, paying off their balances in full to get to a zero balance?

**Andy Wade, Numis:**

Yeah. Getting back to zero balance.

**Craig Lovelace:**

Absolutely. So, that's one of the strange elements of IRFS9. You may have zero balances that you still then have to provide against, because they're going to continue to shop in the future. So, we have customers who are very regularly paying down their balances, using that revolving credit facility. And at any point in time they can pay their entire balance off.

**Andy Wade, Numis:**

So, you've got customers who are paying down regularly. But still, your average is 7 percent payment a month?

**Craig Lovelace:**

Yes.

**Andy Wade, Numis:**

All right. Thanks.

**Angela Spindler:**

Any more? No. Brilliant. Thanks very much for your questions. Thanks for joining us.