

N Brown FY19 Full Year Results

Steve Johnson:

Good morning everybody.

Today I'm joined by Craig Lovelace our CFO – who you all know – and our Chairman Matt Davies is also in attendance.

I'm delighted to be here today. I've been in the permanent role since the first of March and of course before that I was interim CEO. This is a fantastic business with a strong heritage. We have great foundations from which to build, some great people and I can see a significant opportunity for this business as a customer centric fashion retailer. Today is where we start to share some of my thoughts on how we will achieve our full potential and I am excited about the journey we are about to embark upon.

So, turning to the running order. First, I'll run through the highlights of the year. Following that Craig will take you through the financial performance in the year in detail. I'll then provide a review of the year and explain our exciting, new refocused strategy

Overall, we delivered a solid underlying trading result this year. We delivered revenue of £914.4 million in the year, a decline of 0.8% compared to the prior year. This was reflective of our focus on profitable, digital growth and the managed decline of our offline business. As a result of this strategy we saw digital growth of 4.1% in the year and 80% of our product revenue is now digital. We were pleased with our disciplined approach to operating costs which declined 4.5%

Our focus on profitable, digital growth delivered a 7.9% increase in EBITDA to £128 million. Financial Services delivered a strong performance and the customer loan book grew 5.3% in the year. Adjusted profit before tax increased 2.5% to £83.6 million.

During the year we incurred a large number of exceptional items which relate to legacy issues. These have been previously announced in the October results and the VAT announcement in November. We are recommending a full year dividend of 7.1 pence per share. Trading is in line with our expectations.

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

Craig Lovelace:

Thank you, Steve.

Group revenue declined 0.8% to £914.4m with product revenue declining 5.6%, offset by a 10.8% increase in Financial Services revenue. Let me talk you through the component parts.

Product revenue was £615.8m - reflecting a continued shift in focus to digital growth, a moving away from unprofitable offline business, the closure of our store portfolio and the ongoing challenging market conditions for fashion retail.

We saw solid growth in our digital revenue and Steve will talk to you more about that later in the presentation, but I'd just like to call out the impact of the fifty plus migration on JD Williams – excluding fifty plus, JD Williams revenue increased 6.8%.

Excluding stores, which are all now closed, Product revenue was down 4.2%.

Financial Services revenue was £298.6m as we benefited from the Group's growing customer loan book. Starting from the left, last year our adjusted profit before tax was £81.6 million. Financial Services delivered a strong performance in the year and contributed £11.8 million of additional gross profit. Product gross profit was down £19.7m, largely due to the managed decline of the offline business. This decline was broadly offset by improving operating efficiency, particularly in Admin & Payroll and (sustainable) marketing cost efficiencies, which resulted in a £17.3 million reduction in operating costs. As we guided, depreciation and amortisation increased by £2 million due to historical and ongoing investment in IT systems, and interest was up £5.4 million primarily due to growth in our loan book. This meant that our adjusted PBT grew by £2.0 million to £83.6 million.

This slide shows you more detail on the movements in gross profit. We delivered a solid performance on product margin which was only down 10bps to 52.1% in an ongoing and competitive promotional market. This came as a result of focusing on profitable digital growth and more targeted promotional activities.

Financial Services gross margin declined by 200bps to 59.2% primarily due to the requirements of IFRS9, which requires us to make a provision against every credit customer, including those that are up to date on their payments and trading normally. This meant the Group's gross margin was 54.4%, down 40bps compared to last year.

Turning to operating expenses and EBITDA. The Group has continued to keep a tight control of its operating expenditure. Warehouse and fulfilment costs were 2.1% lower at £84.0m, reflecting lower product volumes and operating efficiencies more than counterbalancing inflationary impacts. Marketing and production costs decreased by 3.8% as we continued to improve our marketing efficiency (*and refocused our marketing activity in H2 in the US*). Admin and payroll costs were down by 6.8% as a result of actions taken to close our store estate during FY18 and FY19 as well as increased cost efficiencies more widely. As a result, we are pleased to report that adjusted EBITDA increased by 7.9% to £128.0m.

In line with our guidance, depreciation and amortisation increased to £30.1m, meaning that operating profit before exceptional items and unrealised FX movement was up 8.2% to £97.9m.

As a result, operating margin increased by 90 basis points to 10.7%. Net finance costs were £14.3 million, an increase of £5.4 million, as a result of the Group's increased debt. Therefore, adjusted PBT increased 2.5% to £83.6 million. We reported a statutory loss before tax in the year of £57.5 million which was driven by exceptional items which I will now go into more detail on. Finally, we are recommending a full year dividend of 7.1p per share, consistent with our decision in October to rebase the dividend to a more sustainable level from which to grow.

First, let's deal with those previously announced. At the half year results we announced £65.4 million of exceptional costs. This consisted of: £22.4 million in respect of customer redress. £22.0 million relating to the complete closure of our remaining store estate. Two non-cash asset impairment charges with regard to Welcom and Figleaves totaling £18.3 million, and £2.7 million relating to external costs in relations to addressing legacy tax matters in litigation or settlement.

In November we announced an HMRC VAT litigation update. This stated that we were assessing an anticipated material non-cash exceptional charge to the income statement - in FY19 - relating to a partial impairment of the existing VAT debtor. This message was re-iterated

at our Q3 results.

Today, we have announced a further £80.2 million of exceptional charges. These are as follows: £49.4 million relating to the non-cash VAT Debtor impairment which I just referred to. £22.6 million in respect of customer redress - bringing the full year total to £45.0 million. This H2 uplift has arisen due to a substantive increase, well above prior experience and expectation, in both volumes and uphold rates across all categories of redress.

Of the additional provision made for customer redress in the second half of the financial year, £14.1 million has already been paid out in cash and is incorporated in our reported net debt number. As a reminder the deadline for PPI claims comes into effect in less than 4 months on 29 August 2019. The external costs in relation to tax are primarily in respect of legal and professional fees which have been incurred as a result of the ongoing settlement of legacy corporation tax and VAT matters with HMRC. We have decided to write down the remaining carrying value of the tangible assets of Figleaves which results in an impairment charge of £1.7m. This brings the full year non-cash asset impairment charge to £20 million. Finally, the other category relates to a guaranteed pensions equalisation adjustment of £0.3 million, following a recent High Court ruling. This is a one-off impact and may still be subject to appeal. Clearly we are disappointed with the significant level of exceptional items in the year - but we are confident that the period of large exceptionals is coming to an end.

As we showed you at the half year results, here you can see how our core and overall net debt have moved over the period. Given the significant majority of the Group's debt is securitised on its loan book, which is non-recourse to the company, this is a more appropriate way of showing our debt position. From left to right, the Group generated an underlying cash flow of £66.6 million. Capex was £36.3 million, and we paid dividends of just over £32 million. The vast majority of the debt increase was therefore driven by the £34.6 million growth in the gross customer loan book together with exceptional items of nearly £84.6 million. Going forward we expect the loan book to continue to grow, but at a lower rate.

Core debt, that is the utilisation of our RCF plus cash, was £77.7 million. This means the Group's leverage is 0.6x on an EBITDA/net debt basis, given it excludes the securitised debt and associated interest. To remind you following our refinancing in May last year the Group has total available facilities of £625m until September 2021.

We delivered a strong performance in Financial Services and revenue grew by 10.8% in the year. This was driven by interest income which grew by 12.7%. This increase was supported by the 5.3% growth in debtors although interest paying debtors were up 8.1%

Arrears rates, whilst marginally higher than last year - which in themselves were artificially suppressed by the minimum payment change - are lower than historical levels at 8.9%. We have not seen adverse impact from Brexit or from wider market conditions on the book performance. In the 6 months to 2 March 2019 we recruited 111,000 new credit recruits who rolled a balance. This is a better performance than the previous 6 months when we added an additional 90,000.

Now a slide on IFRS9, which replaces IAS39 and relates to receivables provision accounting. This is first time that we have reported a full year under IFRS9. As a reminder, IFRS9 requires a provision to be made against every customer regardless of their arrears position which compares to IAS39 which primarily only required provision against those customers where a

clear indicator of impairment had been demonstrated such as missed payments or being on a payment arrangement. Total debtors grew by 5.3% to £682.2 million. For the full year our bad debt provision was £97.1 million. This compares to an IFRS 9 restated figure for 3 March 2018 of £116 million. This resulted in the provision ratio of 14.2%, which on a like for like basis represents a 370 basis point decline from the prior year. This was driven by both continued improvements in the profile of the book and debt sales.

Let me now go through some of the exciting initiatives we launched in the year. After tests in the last financial year we significantly reduced headline interest rates (24.9% on Simply Be and Jacamo). These have now been rolled out across all major brands in order to drive credit recruitment in new customer demographics. Our risk based pricing strategy means that each customer receives a different interest rate based on their level of credit risk.

In addition to lower headline rates, an introductory 6 month interest free promotion was developed and launched with increased promotion across websites. We will use the learnings from this in new customer recruitment campaigns.

We have executed a consistent performance in +28 day arrears and reduction in overall arrears including 0-28 days through improved lending decisions and new arrears management strategies.

We have undertaken a successful trial to unlock opportunity to use new data and analytics to lend to more customers and prevent financial harm, using new contextual data captured dynamically in the customer journey. This will now be rolled out "live" during this financial year.

Finally, we have also made positive steps to reduce customer fraud with the number of instances of customer fraud down 30% year on year in the final quarter.

Finally, to give you guidance for this financial year. The range for Product gross margin for the year is flat to down -100 basis points, primarily reflecting an environment of uncertain consumer confidence. The range for Financial Services gross margin is also flat to -100 basis points down. Group operating costs are now expected to be down 2.50% to 4.50% mainly due to continued proactive cost control, and in particular, further maximising embedded promotional efficiencies. Net interest is slightly up, to £17million to £18million, due to growth in the customer loan book and reflective of our guidance on net debt. Our tax rate for the year is expected to be between 20 and 21%. Capex is expected to remain in the range of £35million to £40million. Finally, FY20 net debt is expected to be in the range of £440million to £460million - although half year net debt will be in the range of £475million to £500million given ongoing customer redress and tax settlement payments.

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

Steve Johnson:

Thank you Craig

Last year saw a marked acceleration in the business's transition as we focussed on our digital customers and dialled back unprofitable offline marketing and recruitment. As a result of pursuing this strategy we have increased our profitability against a backdrop of an ongoing challenging retail climate and decline in consumer confidence. As you can see from the chart this focus resulted in a 4.1% increase in digital product revenue in the year from £470 million to £485 million. Our offline business declined from £182.3 million to £130.8 million, as we made a

conscious decision to stop unprofitable marketing and recruitment. We expect this trend to continue this year.

JD Williams delivered an 8.8% increase in digital revenue compared to the previous year and a 10.2% increase in the second half of the year. For the full year 76% of JD Williams' revenue was digital. Overall, JD Williams revenue was down 2.4% during the year due to the drag from migrated Fifty Plus customers, one of our legacy offline brands. Looking forward we're continuing the successful JD Williams "I AM....." message with the summer campaign launching this month.

Simply Be delivered another good performance, growing revenue by 4.4% during the period. Simply Be reported an 8.7% growth in digital revenue compared to the prior year. Within the second half of the financial year we increasingly moved to customer lifetime value modelling which will continue to impact Simply Be digital revenue growth in the first half of this year. Last week we launched our first ever Simply Be Panel Event. This included a panel of influencers, models, journalists and broadcasters talking about body confidence in general, all wearing Simply Be. Feedback from the event was great and we are excited about doing more of these events going forwards. Simply Be will also be E4s first channel sponsor with lots of eye catching content coming up over the next 12 months.

Jacamo revenue was up 3.9% excluding stores, digital revenue increased by 5.1% compared to the prior year. Over the coming months we're linking Jacamo with cricketer Jimmy Anderson and rugby player Courtney Lawes.

Secondary brands revenue decreased by 4.6% excluding stores, reflecting our shift in marketing investment towards profitable growth.

Revenue in our Traditional segment decreased by 17.2% as we scaled back unprofitable offline marketing and recruitment. However, it's worth noting that Ambrose Wilson increased digital revenue by 7.4% in the year. Given that this segment is naturally more heavily weighted towards offline than the rest of the Group, as it typically serves more mature customers, it is expected to experience the fastest rate of offline revenue decline going forward.

We continue to innovate to drive digital revenue, deliver efficiencies and give our customers a better experience. A couple of great examples in the last 6 months include: Using Artificial Intelligence to drive positive peak-season trading success with newly implemented promotional tools in merchandising. These will now be more widely embedded throughout the business.

Creating a Data division and launching a Data Fellowship, to develop digital skills in house and we're really pleased to have been shortlisted for 6 out of the 13 awards at the Drapers Digital Festival later this month. And further developing our proprietary body scan library to improve our Fit USP

All these areas form part of the new refocused strategy and I am going to talk more about these later in the presentation.

Today I'm excited to talk to you about our refocused customer centric strategy. We recognise that the shopping habits of our customers are changing rapidly and this, coupled with a continually challenging consumer environment, emphasises the need for N Brown to pursue a retail-led strategy which is robustly focused on profitable digital revenue growth.

Over the last few months, we have assessed the business to ensure that we are well placed to take advantage of the opportunities in our markets and that we remain resilient to present and future challenges. So where are we, as a business, right now - We are a business with a clearly differentiated position and areas of market-leading innovation, underpinned by a strong enabler of customer choice and loyalty from our financial services proposition.

From this core, we believe that we have a real opportunity to delight our customers more consistently – customers who understandably expect more and demand continued relevance and personalisation in their N Brown shopping experience. We have a solid foundation from which to build, with 80% of our product revenue now digital. I'm proud that we are a top 10 UK Clothing & Footwear retailer by digital revenue and I look forward to maintaining and developing that position. We also have industry leading expertise in fit, and a Financial Services business which continues to perform sustainably well.

However, whilst we have a clearly differentiated position and areas of market-leading innovation, we know that there is more to do to improve our retail model, and our proposition is not yet well enough developed. A re-focusing of our strategy on delighting our customers is now required and also a change in how we will measure our success. Let me tell you how we plan on doing this.

Our assessment of the business has identified 5 core focus areas around which we are aligning our operational planning and delivery.

First - we will focus on the UK customers

Second - we will simplify our customer brand proposition

Third - we will continue to enhance our product offering for our customers

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

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

I'll now go into some more detail on each of these strategic pillars.

We need to maximise the opportunity in the UK core market before leveraging our international opportunity. Therefore, we will now have a laser like focus on the UK. We can do much more to enhance our offering to UK customers every day before focusing time and resources elsewhere.

The opportunity in the UK is significant. The online clothing & footwear market is forecast to grow by 7% per year for the next five years. We currently have online market shares of 4.0% and 3.2% respectively in our addressable womenswear and menswear markets, giving us plenty of headroom.

To be clear, I have closed our International division. However, I've also upweighted the partnerships area of our business and we will explore and learn in international territories through targeted business to business relationships. Our Irish business, Oxendales, continues to perform well and the strategy there remains unchanged. Our attention will be focused on the UK and you will hear us talking about the UK for the foreseeable future and not providing commentary on International.

Secondly, we will start by simplifying our operating model to create a simpler brand proposition for our customers. Our brands will be 'fashion' led and there will be an increased focus on the older customer and I'll explain what I mean by this in a minute. Right now, we trade through 11 brands and categorise them under Power Brands, Traditional and Secondary. From this financial year onwards, we will not be using these descriptions and will move to 'Womenswear' and 'Menswear'. Within Womenswear our key brands will be; Simply Be, for fashionable size 12-32 women, JD Williams, for 45-60-year-old women, and Ambrose Wilson for women 60 and over. As I just mentioned, the increased profile of Ambrose Wilson is a critical point to make as we are not walking away from our older customers – they are loyal, valuable customers and we want to delight and serve them better. Menswear will be the Jacamo brand. Our other brands will become product brands and sold through Womenswear and Menswear. We will continue to develop the best way to do this.

To support further customer improvement, we are continuing to invest in our core technology platforms to streamline the digital user experience in both our product and Financial services areas. At the same time, we expect to accelerate the pace of simplification in our IT estate to increase efficiency but optimise further investment for innovation. This will make us more agile and we will be able to develop new customer propositions more quickly.

We are absolutely focused on further improving our customer proposition. User experience is often about lots of small improvements so as to not impact the customer journey too much in one change.

I'll highlight a few of our recent initiatives to give a flavour of what we have achieved already:

- We've launched Mobile Apps on our in-house Mobile App framework for iOS & Android with a 4.8* rating; and simplified the account registration process which has substantially reduced dropout by degree.
- We're now able to capture customer feedback at a granular level about the customers shopping experiences, the products they purchase and the services they received.

These are just a few examples of the multiple initiatives which we are working on and why we are excited and confident about improving the experience for our customers. In the last 2 months we have launched a fantastic own in-house studio to transform the way we capture digital images. The benefits which this brings to customers is that it allows us to get products ready for sale in hours as opposed to days. This is a key enabler to support our strategy to move to key product 'shouts,' dropped cohesively in three weekly cycles, and thus delivering quicker and more relevant product for our customers. The technology will also deliver better product quality and colour consistency across model and still life studio shots. Our plans also incorporate ongoing investment and innovation in our supply chain –including a new returns automation facility at our distribution centre in Shaw which will deliver further operational efficiencies.

Turning to our third pillar – better product for our customers. We aim to be as customer-inclusive as possible and our product really needs to truly resonate with our customers' needs. Here, our fit-focus expertise remains an essential part of our DNA. The strongest customer feedback we receive is the emotional response that a good or poorly fitting piece of clothing elicits. Harnessing this feedback ever more quickly and channelling it into agile product re-orders or improvements in quality is essential.

So, let me bring to life what this means in reality. We have and are continuing to build a repository of body shape images and data unlike any of our competitors, which is now being utilised through 3D avatar technology to infuse our designs and innovate solutions to all manner of fit challenges. This is where our pioneering recent technical innovation can help accelerate providing the customer with product which fits better. The benefits this will deliver are; greater customer engagement & loyalty through improved customer centric fit and styling experience, reduction in overall lead times with development time reducing from weeks to days and aiming to reduce returns rates as we continue to deliver better fitting clothes. We have a USP in 'Fit' and we will continue to develop our expertise in this area to deliver better product for our customers.

In addition, we will invest further in design and sourcing. This will be underpinned with a renewed and enhanced sustainability and ethical sourcing plan to build upon strong foundations in this area.

Finally, we continue to evolve the way we engage with our customers, improving the quality of our breadth and influencer reach, and substantially better targeted marketing and promotional activity to ensure a more personalised experience.

We have a rich data set and the enhanced use of this has already unlocked operational efficiencies and improved customer insight in our business as I mentioned earlier. But our strategy is now underpinned by a further step change in how we harness and use this data. For example, over the last 6 months we've achieved successful early results from AI modelling which predict size profiles and return rates. These will be further developed in this financial year. I would be here all day if I went through all the initiatives we've put in train over the last 6 months, but a few examples include targeting a more optimised product range in terms of breadth, frequency of newness, and price using historical data of product performance, customer journeys and price architecture. Further improvements in the targeting of discount codes to each customer, as well as a further unification of all promotional planning in the business to ensure enhanced forecasting of marketing promotions.

Finally, but most importantly, we believe that better engaged colleagues will deliver a better customer experience. Our people strategy is focused on creating the right culture and environment which attracts, retains and inspires colleagues to thrive and deliver a great experience for our customers. We have already made changes to a variety of commercial teams to increase pace and customer ownership, whilst at the same time, we are also investing further in critical skills in data science and user experience across the business. We have some wonderful colleagues right across our business and I'm looking forward to working with them to align their roles more clearly to delight our customers. We have made changes to our internal reward and performance management processes to reflect our new strategy and to align with our new measures of success.

Our success will now be internally assessed against 5 measures which everyone in the business will play a part in delivering. These are:

- Grow digital sales which will develop our sustainable business model
- Increase EBITDA - deliver sustainable profitability
- Increase Net Promoter Score - delight more customers which produces sustainable loyalty
- Reduce FS arrears – as a responsible lender we want to continue to ensure our customers have a more sustainable shopping experience with us
- Increase colleague engagement score, 'VIBE' - Engaged employees will deliver better results for our customers

We believe that these measures will align the organisation behind the new strategy and we look forward to updating you on these going forwards.

There is a substantial amount of activity already underway at N Brown but a refocusing of our strategy on delighting our customers is fundamental to the successful delivery of the Group's potential. By refocusing the business around these 5 strategic pillars which I have walked you through today and by holding the organisation to account for the 5 measures, we are confident of a successful long-term strategy. We are focused on driving sustainable profitable digital growth and free cash flow growth to improve shareholder value. We are excited about our future and with that I'll turn to Q&A.

So now we'll turn to Q&A. Please raise your hand if you'd like to ask a question and a microphone will find its way to you.

Thank you.

John Stevenson, Peel Hunt:

A couple of questions, please.

First up, on the marketing efficiency. Just wondering how that's sort of impacting customer KPI so when you look at, sort of, cost of acquisition, looking at ROI on your marketing spent -- I don't know how much detail you want to give me, but if not the numbers, then certainly the movement.

And second one just on the market share piece. I mean, in the past the strategy was very much about younger, I suppose, more competitive end of the market. It sounds like you're signalling a bit more back to your roots and the business's roots. If you look at the profiling of sizing, it feels like the weight of product has gotten slightly smaller -- maybe, again, by this function of age. Are you going back to, I suppose, a prominence on a more mature woman? Prominence on market where you think you can actually make better market share gains?

Steve Johnson:

Yes, so let me pick the second part of the question up, and then I'll pass to Craig for the first part, if that's okay.

So, look, in terms of our customer proposition, we believe there is an opportunity to grow this business in a broader way than what we have currently been doing. And with that, there is absolutely a recognition that the older customer plays a part in it. So, the Ambrose Wilson elevation is fundamental to our strategy going forward.

And what I would say -- and I think this is the -- this is the sort of important thing -- I mean, if you look at the digital growth of Ambrose Wilson customers, it's off a smaller base but actually it's running, I think, 12 percent for the half in the previous year. It's actually a fast-growing digital brand. What I'm interested in is using our capability to deliver products and services for consumers who want to shop with us and join us on our digital journey. And we're finding that customers there are not as well-served in a market level, and, actually, we have all the capability to continue to help those customers in the future. And, clearly, they are shopping digitally with us, which is they are happy to come on our journey.

Craig Lovelace:

So, on the marketing cost point, as a crude metric, marketing costs as an element of revenue has come down. I mean, it is crude, but the reality is this year has been a message about darting back from unprofitable customers, and we are refining consistently our contribution modelling. And so, these are customers who -- they drove sales, but ultimately with one-time purchases, generally, didn't open a personal account. And that's not to say they're bad customers or good customers, but from a profit focus, we're refining our contribution modelling consistently, and I expect to continue to report on that.

In our operating cost guidance, promotional efficiency is a core factor. As we've talked to in the past, though, an important factor is look at product growth margin because there may well be times when we think we need to promote harder or be more price-conscious. And if that needs to be funded from better marketing or move the cost of marketing, so be it.

John Stevenson, Peel Hunt:

Okay, I mean, trying to narrow it down a bit in terms of the KPI, your ROI on marketing is improving; I guess your lifetime value, from what you're saying, must be improving. Can you comment on this?

Craig Lovelace:

That's going to be a gradual journey over -- it's been the case for the last year -- in particular the last six months -- and we'll comment more on that as we go forward. But it's a fundamental tenet of the following year.

John Stevenson, Peel Hunt:

Okay. And finally, actually, on the APRs, can you just talk about what the headline rate is now, what's happening to rates?

Craig Lovelace:

All right, so, when we offer a new headline rate, so we've offered 24.9 percent to Simply Be. and Jacamo customers primarily this year. That's to new customers, obviously, if they're eligible. And the headline rate is ultimately, I think, 51 percent of new customers are eligible for it. Clearly, you still have a substantive back book; not measuring price of that because we're pricing on risk. But the expectation is as we can offer that, and more customers are interested, and their risk allows, that over time would influence the overall of APR. But that's a long journey, so it's encouraging at the early stages. A better H2 performance than H1. Still work to do.

John Stevenson, Peel Hunt:

Okay, thanks.

Caroline Gulliver, Jefferies:

Good morning. Actually, I wanted to pick up on both of those topics that John just mentioned.

Just going back to that marketing, can you give us any idea of the split now between, say, TV -- you mentioned sponsoring Channel 4 -- or E4, sorry -- digital, and offline? And in particular, you mentioned some influencers as well. Are you doing more on a social media strategy? And how is that impacting the overall return on marketing?

Craig Lovelace:

So, I'll handle the marketing costs first. The profile of marketing costs in this group has changed measurably over the last five years. So, we were sitting probably five years ago at circa 70 percent paper/print production. I think it's been consistent over the last year as we brought it down. So, a rough rule of thumb is costs around print/paper are circa 30 percent. I think we need to be clear no paper at all is not necessarily something we've called out. I think that's still consistent as a useful stimulus to profitable long-term customers. It still has its place, but the reality is we're now at a third, so it's a measurable decrease. The remainder is obviously a shift out of print into digital media. And television is a part of that, as, indeed, is social media.

Caroline Gulliver, Jefferies:

And, secondly, on market share. You talked about the online market growing at 7 percent, and you talked about your market share of being about 4 percent, and 3.2 percent. A couple of questions: Do you have a target in mind of where you would like your market share to get to? And, secondly, do you think you can grow faster than the market?

Steve Johnson:

So, we don't have a target set at this point in time. What I would say is that what we are doing here is building our digital retail business. I've made that reasonably clear in the sense of we know that we can do better in that space and build some more capabilities. We're doing okay. We can do better. So, the short-to-medium run is all about building that capability and transitioning the business a bit further from this offline to digital model. In the medium- to-longer run, I would expect us to be growing. And on that basis, at this stage we're just a bit early to be, sort of, calling out any targets on that number, Caroline. Thank you.

Kate Heseltine, Edison:

A couple of questions. Just, firstly, how could you be using social media to raise brand awareness. Do you think there's a lot more you could be doing on that front?

Steve Johnson:

That's a great question. It is one of the tenets of our strategy. We have focused quite a lot on that over the last -- particularly, over the last month or two, as we've started to build our capability in that space. We're investing in people to come in and help us with that. It's become more prominent in our strategy as we go forward. We have got some work to do, but that's good news, because there's opportunity. And on that basis, we should hope to put that sort of -- that is, exactly, a great example of what we're building in that capability over the short-to-medium run. But we're excited, actually, about the role of social media, and how it can help accelerate our journey going forward.

Craig Lovelace:

The visibility of brands, in particular JD Williams, certainly in the last six to eight months, has grown measurably on that, and there's plan, still to develop that.

Kate Heseltine, Edison:

Thank you. And secondly, your focus on the U.K. business -- what does that mean in practice, for your presence in the U.S.?

Steve Johnson:

So, in terms of the focus on the U.K. business, I'd come back to the question I was asked earlier. We've got real opportunity, and we believe that we can look to the sort of medium-to-longer run with real optimism in the U.K. And the U.S., we did a strategic review as part of my initial journey as an Interim. And actually, there is an opportunity for this business in the U.S., as there is in other territories. But what we would want to do is have our digital model in such a place that we could transition that model, simply, if we chose to in the future. And therefore, actually, it's really not a question about the U.S. It's more a question about the U.K.

In terms of practically, we've got some Simply Be U.S. customers who we have sold to, and they will continue to trade with us. When I said we'd closed the international business down, we of course have a trading team who trade different channels, whether it's through our rep, whether it's through the U.S., so they will continue to trade and service those existing customers. But realistically, the focus in the next couple of years would be to, perhaps, have one or two partnerships, to enable us to understand the U.S. model. And maybe that's a question we come back to in the future. But at this stage, we think we've got a real opportunity in the U.K.

Kate Heseltine, Edison:

Thank you. And just finally, on delivery times; how does that compare with your peers, and is there any likelihood of you changing anything there?

Craig Lovelace:

Well, we believe we're broadly in line. I mean, we brought it down quite measurably. So, our very standard terms, I think, from memory, have historically been three to four, three to five days. We're trending below that and have been for some period of time. We offer next-day, and certainly at peak, the take-up on next-day is significant.

Kate Heseltine, Edison:

Thanks very much.

Craig Lovelace:

There's always room for improvement, though.

Kate Heseltine, Edison:

Okay, thank you.

Kate Calvert, Investec:

I've got two questions. First, on your product gross margin guidance, flat to down 100 basis points. Can you give a bit more sort of colour on what's driving those expectations? Because you have seen some quite significant gross margin erosion over the last couple of years, due to discounting and clearance. So, are you having to invest more in pricing, perhaps?

Craig Lovelace:

So, certainly, in the last four to five years, we've seen gross margin come off a lot. We've had, obviously, FX impacts. We've had pricing architecture changes, back in the very early days, four to five years ago. And more recently, in the last 18 months, there have been promotional

pressures. The guidance reflects that we're in two months, so far, and there's a lot of uncertainty out there. I'd also come back to the results we've published, which have been in an equally competitive market, and we've held our own, with gross stock levels down 10 million, as well. So, I'm cautious that the environment is still competitive.

Price competition, we're alive to our prices at any point in time. If we think we are uncompetitive on price, that is something we would need to address. But equally, we're making inroads on marketing efficiency, as well. And so, I consider the two as effectively, as a budget in themselves.

Kate Calvert, Investec:

Okay. And can I just check my understanding on the way you're moving with your brand? With JD Williams, for example, you say it's going to be in women's wear. Is that still going to continue to offer men's wear and home?

Steve Johnson:

Yes. So, if you look at JD Williams as a sort of brand, we're doing a piece of work to understand what a curated range would look like for that customer. But the plan is to sell other brands through the JD Williams brand. So, the best example of this is Marisota, that's on the page. We're starting to explore how to sell Marisota through the JD Williams brand, and actually, the Marisota customers are responding pretty well to that.

On home, specifically, we are reviewing our proposition from a customer perspective. So, you know, the best place to look, really, is Simply Be. So, on Simply Be, historically, we would have pointed the Simply Be customer at a sort of Home Essentials-type brand, and there was a bit of a disconnect in the customer journey. Simply Be is a fashion-led business, and absolutely, we should be seeing fashion-led curated ranges which supports and complements that proposition. So, if you were to go on the Simply Be site, you could click on Home, and actually, there's a small curated range under test at the moment -- about 350 lines -- that aligns nicely to the proposition. So, we are developing that thinking. We don't have all of the answers at this stage, but that's landed well in the way that we've done that so far.

Kate Calvert, Investec:

Okay, thank you.

Matthew McEachran, N+1 Singer:

Could we just go back to product for a second? Obviously, you've got a new plan for the business, in terms of where you present the product to the consumer. Could you, first of all, just box off the correction of the issues you had with the migrated customer in Fifty Plus, and the product range, and the marketing issues that were experienced back at the early part of the last year? Could we just box that off first? And then, as we move forward, does the new strategy carry any risk, in terms of new product development going back up into the older customer, or is that not really the flavour of things?

Steve Johnson:

So, first of all, on the Fifty Plus migration, I mean, I think this is, broadly, about two years ago. So, it's a great question. We've continued to talk about it, but ultimately, it's an offline customer. So, as we look forward in the strategy, we won't be talking about Fifty Plus anymore, in the same way we won't be talking about power brands or secondary brands. We will be talking about digital growth. So, our job is to transition as many of those customers on that digital journey as we can possibly transition. And that's the key thing for us as we move forward.

In terms of product and where do we go with it, I think what we have to do is understand the segments that we're trying to attract here. And we're starting to be very clear, with the introduction of Ambrose Wilson, that it's important to have a segment of customers who shop in their 60s. It's important to have a segment of customers who shop in their 45 to 60s, and it's important to have a fashionable, slightly younger customer, but not a young customer in our portfolio. And actually, it's less about where the whole range goes, and more about making sure the business is set up to get it right for those customers in each of those addressable markets. And we are reviewing our organisational plans to enable us to execute on that as well as we possibly can. So, I'm not sat here concerned at all about where the whole range goes to. I'm absolutely excited about the opportunity of getting it right for each one of those segments.

Matthew McEachran, N+1 Singer:

Okay, thanks. You talked in the presentation about a new returns facility being put in Shaw. You haven't commented about the returns rate generally. Could you give a comment about the general returns rate trend, and if you think you can make improvements there?

Craig Lovelace:

I mean, the returns rate has generally been quite consistent, and it's been coming down in the last three years. It's holding steady. I think the technology we're investing in can support that. It all comes back, ultimately, to product. And I think one of the core tenets of Fit, of the strategy, is a driver to improve returns. So, in terms of that fundamentally driving improvement in that metric, yes, that is absolutely at the heart of why we're investing in Fit.

Matthew McEachran, N+1 Singer:

Okay. Thank you. The last question was just in relation to the exceptionals. You say you're coming to the end of the -- hopefully, coming to the end [laughs] -- of the redress cycle. Could you just give us a clear view of the phasing and the amount of exceptional outflows that would need to come out of the business, in terms of the cash?

Craig Lovelace:

Yeah, I didn't use that term lightly. But the reality is, having started this journey of exceptionals, three and a bit years ago, there are some critical staging points. So, the end of the formal period for claims under PPI is the 29th of August. So, I'm expecting money to go out of the business to that point, and indeed, for several months after settling claims that all come in right to the deadline. And on behaviour, I expect them to come in to the deadline. So, you've got cash impacting the business, probably, until the early part of H2.

We've also, over the past couple of years -- in particular, the last 12 months -- reached settlement positions, or dismantled legacy tax structures. And in the current environment, they're just not appropriate. It's not something the business does anymore. But the P&L impact has been taking the issue, on previous years -- the cash settlement of those is due to come, certainly, in H1, primarily. There may be a small amount of that in the start of H2. If you, therefore, take a step back and look at the cash impact of exceptionals, I am expecting, as we get into the October, November phase, they are, I'm not going to say done, but they are materially finished.

Matthew McEachran, N+1 Singer:

And what do you -- what's the quantum of the amount still to go out the door -- in aggregate?

Craig Lovelace:

Circa £25 to 30 million, which is leading to my net debt guidance for H1, up £475 to 500.

Steve Johnson:

Any more questions? If there aren't, we can call it a day there.

Craig Lovelace:

Thank you very much.

Steve Johnson:

Great. So, listen, thank you very much for turning up, hope you enjoyed it. And thank you and have a good day.

Craig Lovelace:

Thank you, all.

[end of transcript]