

N Brown H1 FY22 Results Presentation Transcript

Steve Johnson:

Good morning everybody and welcome to N Brown's Interim results for the six months ending August 2021. I am joined by Rachel Izzard our CFO.

Let's turn to the agenda for today. First, I'll give you a quick update on our highlights so far this year. Then, I will hand over to Rachel who will take you through the Group's financial results. I will then return to talk in a little more detail about our KPIs and our strategic progress. After that, we'll open up for Q&A.

I'm pleased with the progress that we have made in the first half of the financial year. While the consumer environment has been volatile, there has been continued momentum throughout our business. Customers have responded well to our improved product ranges, and we saw that reflected in the 15% strategic product revenue growth we delivered in the first six months of the year. We have seen signs of the success of our strategy in total order growth, which rose 6% year over year. And the number of active customers grew in the second quarter, compared to the first quarter.

We delivered an increase in EBITDA in the period. While profitability was boosted in the first half by the strength of the Financial Services margin, it allowed us to more than offset the increased investment that we made in areas like marketing as well as a normalisation in other costs compared to last year, at the onset of the pandemic.

Rachel will touch more on the outlook, but I'm pleased to say that with our focus on profitability, we are reiterating our guidance for EBITDA for the full year. We've also been making good progress with our sustainability strategy, something which has been deeply embedded in the DNA of N Brown for many years. More on this later.

Finally – and I think this is a point that sometimes gets missed – we have an incredibly strong balance sheet. Adjusted net debt of £268m is nearly twice covered by our net customer loan book. I'll now hand over to Rachel to talk you through the financial results for the six months.

Rachel Izzard:

Thank you, Steve. Let me start with giving you a financial summary of the Group's performance in the year.

Overall Group revenue was broadly flat – which is a result of three main drivers:

- Strong strategic brands product revenue growth, now above pre pandemic levels
- The managed decline of the non-strategic brands, and
- Lower interest income on the smaller Financial Services loan book.

The highlight within that is the 14.9% growth in product revenue from strategic brands which I will cover later in a little bit more depth.

Gross Profit Margin has improved by 7 percentage points, supported by a high Financial Services margin in the period. This more than offset the opex costs to sales ratio normalising post pandemic, with the 36% achieved in the period still well below the pre pandemic level of 41%.

Combining the gross margin step up, with the opex cost normalising, this led to an adjusted EBITDA of £53m, £5m favourable to the prior year.

In the second half of last year we re-assessed the IT intangible assets useful lives in light of both the pace of change in the tech environment and our revised strategy, and subsequently accelerated the non-cash amortisation. The result is that depreciation for the first half is £5m higher than last year.

So, combining the £5m additional EBITDA with the £5m accelerated amortisation and finally a £1.6m reduction in interest costs, that gives us the adjusted profit before tax position of £24.2m, up £1.6m or 7.1%.

Net Debt is £143m favourable to the half year position last year and £33m favourable to year end. We had repaid all unsecured borrowings by the end of last fiscal year and in this half year we have flexed down on the securitisation facility by £57m below the maximum draw level to optimise our strong cash position and drive those lower interest costs.

Finally, following the equity raise last year, there are c.61% more shares in issue, which net of the improvement in profitability, generated a reduction in Adjusted EPS to 4.41p.

Moving on and looking at the revenue performance in more detail there are the 3 distinct drivers:

- Strong strategic brands product revenue growth, now above pre pandemic levels
- The managed decline of the non-strategic brands, and
- The lower interest income on the smaller Financial Services loan book.

Our strategic brands, JD Williams, Simply Be, Jacamo, Ambrose Wilson and Home Essentials, posted 14.9% product revenue growth.

Within this, we have already seen strong demand in Clothing and Footwear, and we anticipate the market for these categories to continue to strengthen as the restrictions from Covid subside and customers return to more normal patterns of life.

We are confident that the investments we have made in brand and product will result in continued growth from our strategic brands. Simply Be and Jacamo were the first of our brands to benefit from the refresh of brand profiles and product ranges. These brands both delivered growth rates in the high teens in the first half and both now have their highest ever active customer bases – having returned to their growth trajectory after the dip caused by Covid last year.

The brand refresh for JD Williams followed on from Simply Be and Jacamo. The new campaign featuring Davina McCall and Amanda Holden launched in July and we anticipate that this will further accelerate the growth that JD Williams delivered in the first half.

In line with the third pillar of our strategic plan to provide a new home offering for customers to shop more across categories, product revenue for Home Essentials, which was launched back in FY21, more than tripled, albeit from that low base last year.

Product revenue from other brands has seen that managed decline and dropped by 28.2%. Roughly half of this is from Figleaves where we took the strategic decision to close it at the end of last year. Other brands now represent less than 20% of the Group's product revenue. The impact of ceasing to trade House of Bath and High and Mighty as B2C brands has now annualised, and the impact from Figleaves will annualise from the end of this fiscal year.

Also part of the product revenue story in the period is customer returns. They have increased by 3.8% points year on year as mix moves back into fashion and customer behaviour normalises. However, versus 2 years ago though, they are still down 5.9% points, with approximately $\frac{3}{4}$ of that v2Y driven by mix and $\frac{1}{4}$ reflecting the improvements in our product ranges, which is great to see.

That covers the product revenue side, let's move onto the Financial Services side. FS revenue was down in line with the smaller opening debtor book due to lower product sales last year and continuing solid customer repayments. As we have previously said, FS revenue follows product revenue and you can see that lag and you can see it in the visuals on the slide, showing a clear revenue trajectory mirroring the retail with a 6-9 month lag.

The Group's adjusted gross margin was 51.3%, compared to 44.3% in the first half of FY21.

Product gross margin declined by 2.8% pts. The main causes of this have been:

Number 1, freight rate increases. They kicked in towards the end of FY21 and have intensified in the first half of this financial year across the whole market and that has driven c1.9% pts degradation in our own product gross margin. We anticipate freight rates to remain high throughout this financial year and that's covered in the guidance we give later.

Number 2, mix effect. We have seen a partial mix shift back towards Clothing and Footwear and note that segment has a higher margin rate and so it has improved the average margin rate by 1.3% pts. That has been largely offset by an increased level of discounting in comparison to the previous year, particularly for Clothing and Footwear, driven by the highly promotional market, and that was particularly prevalent at the start of the period when the high street re-opened.

And third, finally, as a result of the lower levels of write offs in Financial Services, we have claimed back a lower amount of associated VAT bad debt relief. This gets credited to the product gross margin as we can only reclaim it due to the benefit of being a combined retail and credit provider. This impact reduced Product Gross Margin by c1% pt.

This leads me on to the Financial Services gross margin which stepped up by 24.2% pts year on year. Within the absolute margin in the period, the bad debt provision rates remain similar year on year. The swing in margin rate vs H1 FY'21 reflects the initial increase in provision rate last year, and a lower-than-normal level of write-offs this year as customers have been supported through the pandemic and repayment rates have stayed solid and arrears rates low and within this specific 6 month period we have seen low levels of write off.

We believe this low level of write offs is temporary compared to our more normal level. In the absence of the atypical Covid performance, adjusting for the lower level of write-offs referred to, the Financial Services margin would have been in the low 50 per cent range.

This slide on adjusted operating costs ratio demonstrates the success of our plan to restructure the cost base, holding the efficiency level below pre Covid levels with a higher level of volume variability to match our new digital retail model. While you should expect some positive operating leverage in H2, the effect should be less than prior years, as more of our cost base flexes now with volume. Operating costs were particularly low this time last year in FY21 due to management actions in response to the first Covid lockdown that included materially reducing marketing spend, stopping all but essential other spend and making use of the furlough scheme.

In comparison to last year, warehouse and fulfilment costs have increased 5.3%, that's slightly above the 3.3% increase in product revenue due to the slight increase in rate of returns. Marketing costs have stepped up by 29.3%. This aligns to the first pillar of our strategic plan – creating and investing in distinct brands. And finally, admin and payroll costs have increased by 20% reflecting last year's cessation and deferment of non-essential spend, the normalisation of payroll costs post furlough, a level of insourcing of marketing activity to better control quality with that key area of the business, and a greater level of project spend now being expensed rather than capitalized.

Cash generation in the period was healthy, enabling us to optimise the debt level for lower interest costs. Looking at this year on year, starting at the top, cash flow adjusted for working capital of £44.7m is £24m lower than the equivalent generated last year. The main variance within that is a £26.7m swing in inventory working capital. During the first lockdown last year, we focused on selling through our existing inventory, utilising the assets we had already paid for, and then kept it very tight through the second half, enabling us to start this year in a really clean stock position. During the first half of this year, inventory working capital has conversely been built up with a net drain of £12.4m representing our confidence buying into the new product, as well ensuring that we have the product in stock prior to peak in the context of the supply chain challenges facing the whole market.

Non-operational cash outflows are £4.6m lower than last year from a combination of the reducing exceptional cash flows related to previously provided charges, slightly lower capital investment and lower interest costs, plus a return to normal timing for tax payments. We expect the rate of capital expenditure to increase in the second half of the year, with a full year expectation of around £25m. The customer loan book has reduced only slightly this year, whilst in the first half of last year customers were paying down balances and write-offs were higher.

Across all these categories we net generated £18.3m, which added to the strong position from year end gave us the opportunity to paydown debt further. Our securitised debt facility has a formula that calculates the maximum proportion of our customer loan book that we can draw down as borrowings. At the end of the year, the securitised facility was fully drawn, and we were holding net cash of c£81m. Since then we have taken the opportunity to reduce our draw approximately £57m below the max level for this current size of loanbook, leaving net cash of c£42m and optimising our finance costs. However, the full value of the securitised facility remains available if required, supporting our accessible liquidity.

Net Debt of £268m represents a reduction of £143m compared with last half year end and a reduction of £33m compared with year end.

Unusually for N Brown over the past few years, exceptional items were net zero in the first half of this year, which is a great place to be. An increase in the provision for legal costs relating to the dispute with Allianz of £1m was offset by resolution of several historical matters previously provided for through exceptional charges. Last year's costs of £4.5m covered a range of items including redundancy costs and the impairment of assets on the brands we were closing.

The final point to note on this slide is that we continue to have a contingent liability with respect to the claim and counter claim with Allianz. It is not possible to reliably estimate the amount of any potential financial outflow of this dispute, nor to be virtually certain of the successful outcome from our own counterclaim. Thus, in accordance with IAS 37, we have continued to report a contingent liability relating to Allianz's claims that total c£66m plus interest.

Moving on, it leads me to looking ahead and guidance for our new financial year. The macro-economic outlook remains uncertain. The impact of furlough ending remains to be seen on consumer confidence and behaviour.

I have already noted, we are well placed with our inventory for the peak season but the effects of Covid could still have some level of medium-term effect on our supply chain.

Whilst the market remains promotional, given our improvements in product and branding, we will be progressively focused on profitable growth, rather than chasing heavily promotion-led growth. As a result, we expect product revenue growth between 1 and 4% for the full year. The rate of decline in Financial Services revenue should improve in the second half, resulting in a full year decline of circa 5%. Put that together and we expect overall Group revenue to continue to be broadly flat. With a continued focus on profitability though our guidance for EBITDA remains unchanged at £93-100m.

We now expect capital expenditure to be c£25m, lower than previously guided but a step up on last year, and that reflects the increased strategic investment, net of some project spend now being expensed rather than capitalised. Our expectation of depreciation and amortisation remains unchanged at c£40m. Net interest costs are now anticipated to be slightly lower at c£15m.

Finally, FY22 year-end adjusted net debt is expected to be slightly better than previously guided, in the range of £270m to £280m with a strong unsecured net cash position.

I'll now hand you back to Steve to talk you through progress on our strategy.

Steve Johnson:

Thank you, Rachel. I'll now talk about some of the strategic progress that we have been making in the last six months.

I'm not going to spend long on this slide. Hopefully it's familiar to you all. As a quick reminder our strategy to return N Brown to sustainable growth is based on five pillars. We are focusing on developing stronger brands and product propositions for our customers, driving profitability through

the retail business, and continuing to offer attractive and flexible credit solutions. The growth pillars are underpinned by our three enablers; people and culture, data, and a sustainable cost base appropriate for a digital retailer.

We have made good progress on our strategic pillars and there is real momentum across the business. I'd like to highlight a couple of points before going into more detail on product and brand.

We said at the start of the year that, with a greatly improved brand and customer proposition, we would increase investment in marketing activity. We have invested in our in-house design team and improved product, which has led to greater customer purchase frequency.

Home Essentials is our newest brand and has been successful, with strong growth in both revenues and customers. We continue to develop the proposition and recently added two high-profile brand ambassadors, who will help customers build their dream room. Investing in our digital capabilities is a key part of our strategy. The current priority is the development of new front-end websites that will improve the customer experience, whilst delivering benefits in terms of conversion rates and search engine optimisation.

In Financial Services, performance has been robust. Customer behaviour has been stable, and we have not seen increased signs of distress. At the end of the half year, no customers were on Covid-19 payment deferral. Our medium-term strategic priority remains building a new, more flexible, Financial Services platform, which will enable us to launch new credit products that will widen our appeal to consumers.

At our full year results we started providing a range of digital customer metrics to help track the progress of our business. Not all the metrics are where we want them to be and there's plenty more progress we need to make. But as I look at these KPIs, I see real signs of improvement. Today I'd like to highlight four of the KPIs.

First, is the 11% year over year increase in website sessions. This is a result of the progress we have made improving the brand and customer proposition in our target segments, as well as the investment we have made in marketing.

Second, Orders rose by 6%. This is driven by growth in demand among our strategic brands. In particular, we saw robust demand from clothing and footwear, as pandemic restrictions eased.

Third, is our total active customers. Year on year, the number of customers declined, driven by non-strategic brands managed decline. Recently, however, we have seen positive trends, with the number of customers on a rolling twelve-month basis growing in the second quarter, compared to the first quarter, with momentum in our underlying strategic brands.

And finally, orders per customer rose 13% versus last year. This increased frequency of purchase shows how consumers are becoming more deeply engaged with our brands and our products.

At the full year presentation in May we said one of our focus areas for FY22 would be brand. Now that we are at the halfway stage, I'd like to give you an update. We have been accelerating our use of social media and we are seeing very positive results, both in terms of the 15% increase in revenue from social channels but also in terms of the number of followers. Across Facebook, Instagram and Twitter our number of followers now stands at 2.1m, of whom 13% were acquired in the last 12 months. And it's not just the number of followers, it's also the level of engagement with our brands, with customers increasingly commenting on, liking and sharing our content.

We took an important step in our branding activities by signing two high-profile celebrity partnerships.

Amanda Holden and Davina McCall became brand ambassadors for JD Williams. Both women represent the brand's values and are aspirational for JD Williams' target audience.

For Home Essentials we signed Frankie Bridge and Nicki Bamford-Bowes as brand ambassadors. In case you are not familiar with them, Frankie Bridge is a celebrity singer-songwriter, and Nicki Bamford Bowes is an interior designer who appeared on BBC's Interior Design Masters. Together they have a huge online presence and a combined social following of over 1.4 million, which will help us reach our target audience of 25 to 45-year-olds with a family. In September, we commenced a campaign, supported by above-the-line marketing, to build awareness of the Home Essentials brand.

In addition to our social media and brand marketing activities, we have invested in our in-house content production capabilities. This allows us to create high quality content tailored to each brand's style whilst also enabling us to tailor the content to different media, such as social or video.

Having talked about our activities in branding, I want to dive into product. We have been investing in our in-house design team and our own brand product has increased double digits compared to last year. The step forward that we have made in product is visible in our improved underlying returns rate. Year on year the figures are clouded by the growth of homewares during the first lockdown and lower customer demand for apparel. But, if we look at returns compared to the equivalent pre-pandemic period, we can see that returns have improved by nearly six percentage points. As Rachel mentioned earlier, part of that is due to the shift towards homewares, although with the growth of Home Essentials, we would hope to retain some of that benefit. The other part is due to a fundamental improvement in the product offering and quality.

I've spoken before about our good / better / best price architecture and creating product which represents great quality and value, while introducing brands which stretch the range within the 'best' category. We have made progress on replacing the good elements of third-party ranges with more aspirational product. We've also launched new third-party brands on our websites with more planned for the remainder of this year.

I'm now going to turn to our responsible sourcing strategy. This is a longstanding commitment and embedded in the way we do business. In addition to it being the right thing to do, responsible sourcing is increasingly important to our customers. Maintaining strong relationships across our supplier base is essential for ensuring availability of product, which is particularly important at present, given well-publicised supply chain disruption.

As part of our ongoing partnership with The Apparel and Footwear Supply Chain Transparency Pledge coalition, signed in December 2020, we have now published the second edition of our full Tier 1 supplier list, encompassing nearly 500 own-brand suppliers. Our partnership with Verisio continues to strengthen, ensuring that we have visibility over where our products are made and knowing that the workers are safe and treated with respect. Over the last 6 months we have graded a total of 345 Tier 1 suppliers, both existing and new, while at the same time reducing our total supply base by 9% year over year.

We are committed to UK manufacturing and have aligned with "Fast Forward" a non-profit next generation improvement programme which shares our vision of an ethical UK supply base. And lastly, we are proud to be working with an industry leading UK manufacturer and social enterprise, Fashion Enter. Fashion Enter has been instrumental in producing elements of the product featured in our recent JD Williams Campaign, as brought to life by Amanda Holden and Davina McCall.

We have now dived into brand and marketing as well as our improved product and our sourcing strategy. But how is this progress translating through into the numbers? We saw growth in total

customer numbers in the second quarter compared to the first quarter. Progress is masked by the managed decline in non-strategic brand customers, as well as the closure of brands such as House of Bath, which we closed last year and folded into Ambrose Wilson.

If we exclude both of these categories, active customers make up 80% of the total customer base and grew 6.5% in the second quarter of the year, compared to three quarters ago.

Our five strategic growth pillars are underpinned by our three key enablers. Our people are key to the success of N Brown. We have remained fully operational, following Government guidelines to ensure that our sites are Covid-19 secure. We have moved to a hybrid working structure, where this is possible, with a focus on ensuring productivity, collaboration and employee well-being. We continue to invest in our data science and analytics capabilities. In the first half of this year one of our focus areas was optimisation of discounts and promotions, building models that allow us to pull the levers on revenue, margin and other KPIs.

The third pillar is the development of a sustainable and appropriate cost base. The key point here is that our unit costs remain substantially lower than the pre-pandemic period. We have baked in efficiency improvements and made our cost base less rigid and more variable with volume.

At N Brown we are fully committed to embedding sustainability throughout the organisation, our product ranges and all our processes. To highlight a number of our recent achievements and commitments. Responsibly sourced product now makes up 20% of our own-brand clothing and home textile ranges. We are on track to achieve an exit run rate target of 30% by the end this financial year.

In July 2021 we signed up to the Better Cotton Initiative - the world's leading sustainability initiative for cotton. We are on track to source 50% of our own-brand cotton through BCI certified routes by the end of this year, increasing to 100% by end of FY24.

And finally, greenhouse gas emissions, per item shipped, are currently 42% lower than our baseline. Our target is to reduce them by 35% by the end of this year and I'm happy to report that we are on track to hit that milestone.

We remain confident of achieving our medium-term targets, delivering product revenue growth of 7% per annum and an adjusted EBITDA margin target of 14%. As regards our balance sheet, we intend to maintain a net cash position. At the end of FY'22, the Board will consider the resumption of dividend payments.

Over the last six months we have become even more confident that we are delivering on our strategic plan, despite what has been a volatile consumer environment. We see real momentum in the business, with consumers responding positively to our improved product offering and our brand propositions.

We have delivered pleasing double-digit growth in strategic brands and we are heartened by the trajectory in customer numbers. We expect to deliver product revenue growth this year and adjusted EBITDA of between £93 and £100 million. We are committed to our medium-term targets of 7% product revenue growth per annum and a 14% adjusted EBITDA margin. Achieving these targets will deliver sustainable returns for shareholders. And now we'll turn to Q&A, so if you are not already dialled into the conference call, please do so now and we will take your questions in a moment.

Operator:

Our first question comes from John Stevenson from Peel Hunt. John, your line is now open.

John Stevenson:

That's a long pause. Good morning, everyone.

Operator:

-- reminder [unintelligible] press Star --

John Stevenson:

Can I start off just by getting a sort of sense of kind of normalization? You know, could you maybe talk a little bit about how customers are sort of shopping at the moment? How the return to normal purchase, whether it's sort of clothing or otherwise has gone? And secondly, I might -- you might have talked about it in the presentation. But if you talk a little bit about the sort of mix of clothing versus home sales at the moment. And then finally, just, I don't know if there's, are any thoughts in terms of when you're looking at sort of deploying the marketing? What's the efficiency you are gaining at the moment? How you think about it in terms of, sort of, cost of acquisition?

Steve Johnson:

Sure. Hi, John, how are you? I'll pick up in terms of normalization. You know, since sort of, you know, shops opened, et cetera, it was a bit sort of spiky around that particular point in time. You know, as we go back into the first half, we saw a bit of volatility there. But ultimately, we also saw people shopping into our clothing and footwear, which I mentioned in the presentation, which is great. And that really continues. We haven't really seen a change in those patterns, as we've headed into the early part of a sort of H2 trading. Our customers have; literally, they are buying dresses, et cetera, at the start, they're now moving into outerwear. So, we're quite pleased with how that's going, and clearly, we're sort of revving up for the golden quarter. So, it's almost like it is normal. We're seeing sort of normal patterns. And hopefully, that sort of gives you some sort of comfort and confidence.

And in relation to the sort of questions around marketing and sort of return on investment. Well, that's something we've been working on for quite some time. It's certainly been part of the strategy for the last couple of years, and we've built a lot of different sorts of tools and techniques to enable us to do that. We're pretty clear that our performance marketing is all sort of delivering profit, and we also have built a sort of really intentional marketing campaigns, where we see that most effective. So, in relation to JD Williams, Home Essentials, we've talked about brand ambassadors because that's how the customer responds and in relation to Simply Be we've talked about the influencer campaigns that we've been running, which we've been getting a good sort of coverage from.

So, we have got intentional processes, and intentional approaches, based on, you know, where we think it's right for the customer, but historically, the business was probably less intentional per brand, and I suppose that's the difference of where we are today, John. We're very clear that we have different sets of customers, and they react in different ways, so we're doing things differently. And I guess at this stage, as we've sort of said, our trading is pretty much in line with expectations, so we're feeling pretty good about that. There was a second part; I think I've picked up one and three; if you can just remind me what the second part was, John?

John Stevenson:

Yeah, just on the mix of the clothing versus home at the moment. And actually, just as a supplementary while I'm on, if things are normal from a trading point of view, are returns levels normal now as well?

Steve Johnson:

Well, the returns levels we covered as part of the presentation are improved from pre-pandemic levels; we're seeing, you know, we're seeing similar mixes in terms of clothing and footwear and home

as we saw in H1 flow into H2 at this point in time, that might change as we head into the golden quarter, but as I sort of tried to sort of point to, it's pretty normal, John, to be honest, we're quite happy with it with no sort of differences that we're seeing at this particular point in time; the returns rate is sort of improved. I think about, sort of, you know, sort of a few points, and that's principally based on the mix that we're seeing. We're obviously selling more home now because of Home Essentials that we launched last year. But also, the actual underlying product improvement has absolutely delivered a few points of improvement in relation to returns rate. So, we're not seeing that change at all from the half one. So, in a strange way, it's quite a sort of bland answer because everything is the same as H1, really; it's just continuing into H2.

John Stevenson:

Okay, Steve that's great. That's very clear. Thank you.

Steve Johnson:

Thank you.

Operator:

As a final reminder, please dial in to ask any questions, and please press Star followed by 1 on your telephone keypad. Our next question comes from Clive Black, Shore Capital Markets. Clive, please go ahead.

Clive Black:

Well, good morning and, yeah, thanks for the time and well done on executing in the last six months. A question about working capital please and linked to that how confident you feel you are to trade into all the fragility and uncertainty of the final quarter of the year, please.

Steve Johnson:

Yeah, hi Clive. Thanks for the comment. I'll cover where we are from a sort of managing our supply chains, et cetera, then I'll hand over to Rachel, I think, to sort of talk about working capital. In terms of our business, we're in decent shape; we have been investing in our stock as part of the capital raise; we started investing in our stock and product, which was covered in the presentation. So, we actually have sort of got ourselves into a decent place; we have the large majority of our stock already in the warehouse, and what isn't in the warehouse is on the water.

And we should also keep in mind that we've simplified the business over the last couple of years. So, we have no stores; we are not shipping to the USA anymore. We've closed down other self-autonomous parts of the operation, like fig leaves. So, actually, our supply chain is reasonably simple, albeit we're not immune to the challenges that the industry faces. We also operate out of Manchester, so our head office is in Manchester; our distribution centres are on the outskirts of Manchester.

It's a loyal workforce, which I'm very grateful for; I think they've done an amazing job, and they continue to do a fantastic job in keeping this business moving forward. So, whilst I appreciate that there are issues in supply chains, which every company is not immune to, we feel we're in decent shape to head into the golden quarter.

And with that, I'll hand it over to Rachel, who will give you, I suppose, a more empirical answer in relation to working cap.

Rachel Izzard:

Thanks, Steve, and morning all. And thanks for the question, Clive. So, yeah, you're right in the period, we had healthy cash generation, and that was net of an investment into inventory working capital,

because we set ourselves up with a strong balance sheet at the end of last fiscal year, to be able to step up our investment in marketing, which we've done, step up back into a strong product, so coming with a clear stock position, and then enable Sarah and the team with a decent open to buy, to buy into the new product and buy into product revenue growth, which she's done, which sets us up well for the peak. We will continue to do that, so I would expect to continue to see a net drain on the inventory working capital side. But for me, that's a good indication of the product resonating and us setting ourselves up for growth into the future. So, we've used the strong balance sheet to invest in the brand, invest in the inventory. The customer loan book has been sort of stabilizing, and the rate of decline and contraction in it has stabilized through the half compared to this time last year where it was reducing more considerably. As that turns into growth, that will be a net drain in terms of working capital investment into the loan book but, again, a good indicator in terms of a positive use of working capital. And we're well set with the unsecured cash position we've got and the reduction in debt draw that we did on the FS securitization facility. We've reduced the drawdown voluntarily by £57 million whilst we've got a strong cash position, and we can pull back down on that as needed within a very short time frame as and when we need working capital for growth, or as and when we get to any conclusion with the Allianz deal. So, in a very good position from a balance sheet perspective and working capital, and it was pleasing to see how the period generated a healthy cash position, and we could optimize the balance sheet and keep ourselves well set for the second half and into next year.

Clive Black:

And then just a follow-up if I may, I was probably wearing shorts the last time N Brown didn't have exceptional items. And Allianz aside, do you expect any in the second half?

Rachel Izzard:

No. Allianz aside, we -- absolutely we said this at the year-end, and in the equity raise last year, we believe material, exceptional items are behind us. Now obviously, we've done full disclosure and continuing disclosure on Allianz, but we were also pleased to see, albeit I wasn't [laughs] wearing shorts, pleased to see the net nil in the period. I think that's a good healthy position for N Brown. Full disclosure on Allianz, it's still a contingent liability because it's a complex case, but we're fighting it robustly, and we'll continue with that level of disclosure. But net nil excluding Allianz, and we expect net nil on the go forward as well.

Clive Black:

Well-done. Long, may that continue. Thank you.

Rachel Izzard:

Yeah.

Steve Johnson:

Thanks, Clive.

Operator:

Our next question comes from Darren Shirley from Shore Capital. Darren, your line is now open.

Darren Shirley:

Yeah. Good morning, folks. A couple from me, if you don't mind. I just wondered if you could give us a bit more colour on the sort of moving parts within the strategic brands. Was there any particular standout performers within there? Any underperformers? I mean, I'm not expecting numbers, but that sort of trajectory will be good. And in terms of the board's review of the dividend at the year-end, is there any particular criteria that needs to be met that we need to look out for, for that decision

to be a yes?

Steve Johnson:

Well, I'll pick up the second question for Darren. We made a commitment to review it at the year-end. That commitment is just being restated today; the board hasn't discussed this as a sort of policy at this particular point in time, but we did make a commitment to sort of consider it at the year-end. I think it's very difficult to sort of pick things that are dependent on that policy, given we haven't had that conversation. But look, I mean, we want to see this business get to growth, right? So, we need to invest to grow this business; we want to get through the sort of consumer uncertainty that exists at the market level. Clearly, you know, we want to move on from the Allianz case. There's a bunch of different things that we will think about, but at this stage, our commitment is the same; we said we would review it at the year-end, and when we get to it, we will have that conversation as a board. In relation to the moving parts on the strategic brands, I mean look, we sort of came out of the back of last year, we raised the money, we launched our accelerate strategy, and we've got going, and as ever in that, you're going to have ups and downs, you're going to have things that go well, things that don't go well. It's a transformation. It's heading in the right direction; we're really pleased with it, and, you know, we're really pleased with the sort of campaigns that we've got from an influencer perspective on Simply Be. We're really pleased with the content that we've got. Our brand ambassadors on JD Williams and Home Essentials, we're genuinely really pleased with. I mean, everything is sort of pointing in the right direction at the moment, but it will all be down to consumer sentiment. And I think at the year-end, we'll perhaps be able to talk a little bit more about 12 months of, sort of, progress and in that Darren we may have some sort of ups and downs that we want to talk about and some things to sort of look forward to, as we plan forward for the following year. But at this stage, we're just cracking on. We're genuinely in a good place.

Darren Shirley:

Thanks for that, Steve. And one more, if you don't mind. In terms of your sort of customer profile, obviously, you're starting to build customers now across the strategic brands. Is there anything you can tell us about them in terms of sort of demographics, age, and anything distinctive at all?

Steve Johnson:

Yeah. Well, we're trying to, as part of our brand segmentation -- again, we came out with five strategic brand segmentations. We have Simply Be perhaps going to push a little bit younger; JD Williams, 45 to 65, that sort of area, and Ambrose Wilson post that. We've got Home Essentials, which is aimed at 25- to 45-year-old families. And Jacamo, of course, is our menswear brand, which again may push a little bit younger. But we're very clear on our proposition; our proposition is all about inclusivity, and whether that's a customer who since they are a little bit older, or since they are a little bit less affluent, or some say are a little bit larger, we don't see the world like that, we focus on those customers, we love those customers, and we'll continue to build segmentations that are appropriate. Some of our brands may end up going a little bit younger, but you know, not significantly so. We're very clear where our heartland sits as a business, and as I say, we're positive about the progress that we're making.

Darren Shirley:

Okay. I'll leave it to someone else now. Thanks. Thanks, Steve.

Steve Johnson:

Thanks, Darren.

Operator:

We currently have no further questions. I'll now hand it back over to the host for any closing remarks.

Steve Johnson:

Well, thank you very much for joining the webcast and for the questions, really appreciate it. N Brown has no or net nil on exceptional items, and my takeaway is obviously Clive's comment about his shorts, which I'll pick up with him offline. I'm really pleased as to where the business is. I really thanked our brilliant colleagues. They've done an amazing job, and we need to push on from here and thank you very much for your time.