

Transcript

Steve Johnson:

Good morning everybody and welcome to N Brown's Preliminary results for FY20 and trading update for Q1 of this current financial year, FY21. Firstly, I'd like to say that I hope you are all safe and well and adapting to the circumstances as a consequence of Covid-19. The current restrictions mean that we are unfortunately unable to present our results to you today in person, but for those of you listening to this on the morning of the 25th June, there will be a Q&A conference call at 10.00am – please see our RNS for further details on how to join.

Today I'm joined by Craig Lovelace our CFO, and Rachel Izzard our incoming CFO who I'd like to welcome to N Brown. As this will be Craig's last results presentation with us, I would like to take this opportunity to thank Craig for his contribution over the past five years at N Brown and we wish him every success for the future.

We have already started putting in place the building blocks for our refreshed strategy that we are sharing today and the process of accelerating our focus on the five growth pillars that we are setting out. Over the coming months, as we emerge from the Covid -19 challenges we will be accelerating these growth pillars to ensure successful execution of this refreshed strategy.

So, turning to the running order of this presentation:

- First, Craig will run through the financial performance of FY20;
- Following this, Rachel will take you through the trading update for Q1 FY21;
- I'll then take you through our refreshed strategy.

Craig Lovelace:

Thank you, Steve. I'm sorry not to be there in person with you today. I have enjoyed my time at N Brown and I leave a company well positioned to execute on it's exciting new strategic plan.

Before I turn to the performance for FY20, it is important to highlight the basis on which the year-end numbers have been prepared in light of Covid 19. Although Covid 19 began before the 29th February 2020, it was not declared a global pandemic until 11th March. As such, at our year-end, the Company could not have foreseen the escalation of the virus in the UK which has subsequently transpired. Because of this, the significant impacts of Covid 19 which were not foreseeable at our year-end cannot therefore be adjusted in the FY20 numbers. We've highlighted this further in the announcement and in particular the post-balance sheet disclosures.

So, turning to the performance in FY20. We made good progress in the year on a number of fronts. Our PPI and tax legacy issues and related exceptional items are now largely resolved, leaving the Group well placed to move forwards in the execution of its new strategy, having delivered a positive net profit in the year. The retail market challenges are well known and we were able to offset these by delivering sustainable operating efficiencies. Good progress was made with our digital strategy and our focus on reducing stock in the business.

Financial Services performance was impacted by industry-wide regulation and we continue to mitigate these challenges. In March we said that our adjusted profit before tax would be lower than the previously guided range of seventy to seventy two million due to the need to assess the wider macro-economic implications impacting the IFRS 9 bad debt provision model. Today we are announcing an adjusted profit before tax of fifty nine point five million. This is lower both because of the aforementioned IFRS 9 assessment but also an increase in stock provisioning. Rachel will walk you through the first quarter in more detail but the Group was able to secure amended and increased financing facilities to provide significant headroom to trade through these challenging times.

Turning to our revenue performance in the year. In line with our strategy, revenue declined in the year as we continued to remove unprofitable marketing expenditure. We grew digital revenue in Womenswear by five point five per cent and by five point five per cent in Menswear with Simply Be and Jacamo displaying good growth in the year. Eighty five per cent of revenue was digital, driven by much improved penetration at JD Williams and Ambrose Wilson.

Financial Services revenue declined two point seven per cent. Regulatory change led to a smaller debtor book and hence lower interest income. Admin fees were also lower in the year. Product gross margin was down two hundred and ninety basis points in the year. This was lower than guidance due to the stock provision taken at the year end which reflects discontinued brands and lower apparel sales. The main driver of lower product gross margin was the highly promotional retail market. The margin was also lower due to an increase in Home sales in the year, which are generally lower margin, and less international revenue, which typically has a higher margin.

The Financial Services gross margin was three hundred and ninety basis points lower in the year. As expected, we benefitted from a favourable movement in the IFRS9 bad debt provision, however this was offset by an increase in the level of write-offs recognising the ongoing improvement in the quality of the underlying debtor book. We had a small benefit from operational cost savings in the year related to our legacy US business.

The drivers for the decline in the financial services gross margin were a lower profit from one-off sales of debt during the year and a lower rate of recovery from regular debt sales, driven by a lower market rate than last year. EBITDA declined by sixteen point six per cent in the year.

The decline in the product gross profit of forty one point seven million was counterbalanced by significant improvements in the operating cost base. Marketing expenditure declined thirteen point eight per cent in the year as we moved out of unprofitable channels and focused on improving the efficiency of our spend. We made good progress this year - but there is still opportunity in this cost line and Steve will talk more about this later. Warehouse and fulfilment expenditure declined by seven per cent and this was predominantly due to lower volumes. Our Admin and Payroll costs were six point nine per cent lower largely driven by continued head office efficiencies.

I am pleased to report an eighty per cent reduction in exceptional costs in the year. The customer redress deadline has now passed. At the half year we made a provision of twenty five million pounds to cover the spike in claims at the end of the PPI deadline. This was reduced at year-end by two point one million pounds as the final amount of customer redress was less than envisaged, resulting in a twenty two point nine million pounds charge for the full year

We also incurred a three point eight million exceptional charge in relation to our strategy review. This is a combination of redundancy and consultancy costs as well as a stock write off from discontinued brands. Our long-running legacy VAT partial exemption matter with HMRC is now largely concluded and the credit of three point one million reflects the actualization of previously estimated cost disallowances. And with that I will hand over to Rachel.

Rachel Izzard:

Thank you, Craig. I'm pleased to have joined N Brown and am excited about executing our refreshed strategic plan. I accelerated joining the business to ensure that I hit the ground running when I formally become CFO. Craig has run you through the full year results so let me give you highlights of what was an eventful quarter.

Our business operations were confronted with the pandemic at the start of the quarter and our agile business model enabled us to take swift and decisive action to ensure that we remained profitable and cash generative. There was a sudden and immediate impact to our retail trade which we highlighted in our announcement on the twenty third of March. Over the quarter we were able to balance some of the wider retail impact with our Financial Services income and our Home offer. We were also able to

materially reduce costs in the quarter and these efficiencies offset more than 80 per cent of the gross margin impact and future bad debt provisioning. This balance of options in the business and active management has driven cash generation and as at the 19th of June Net Debt is down 9.9%. Work with our supportive lenders, combined with the business actions have ensured we have sufficient liquidity, working capital headroom and covenant flexibility to trade and manage effectively.

So, turning to trade in the quarter. As you can see from the top left chart there was an immediate and sudden impact from the threat of, and the actual UK lockdown. Since the lows of March, when apparel sales were down as much as 75 per cent, we have seen a steady recovery in demand returning. We were able to balance some of the impact of weaker apparel sales with a significant increase in demand for our Home and Gift offer as lockdown was introduced. Demand for Home and Gift has remained strong and was boosted by the launch on the first of April of our new standalone brand Home Essentials, a real digital pivot to accelerate the go live of an MVP despite working remotely, meaning we could take advantage of the customer demand. Steve will give more details later on the successful launch and exciting opportunity this gives us. In summary on trading, you can see our revenue trends have steadily improved, with the RNS on the 23rd of March highlighting retail demand down more than 40% year on year, the RNS on the 19th May moving to down 25% and our last 3 weeks of trading down 21%.

In terms of wider Covid business actions. Our absolute first priority from the outset of the pandemic was the health and safety of our colleagues and customers. We benefitted from the structural acceleration to online shopping and 91% of our retail sales in the quarter were digital. We took immediate and decisive action to continue trading with our customers and ensure a continuous supply of goods, whilst at all times complying with government guidelines, and, our resolute focus on treating our loyal financial customers fairly continued. At the same time, we adopted a more prudent lending approach to new customers. We are monitoring collections closely across our customer loan book, and they continue to perform in line with last year.

Moving onto management of the cost base. The Group has a strategic focus on improving the efficiency of its cost base and Steve will give more details on this later. We continued the significant progress made in the last financial year and delivered a forty three per cent reduction in operating costs in the first quarter. This is further evidence of the agility in the N Brown business model.

Efficiency savings were made in marketing as well as across the entire cost base. This hasn't been a blanket reduction in costs, we have taken the opportunity to structurally pivot, for example with Social Media as a proportion of our marketing spend more than doubling. This efficiency focus also extended to stock which has been tightly managed collaboratively with our suppliers, ensuring no material stock overhang despite the Covid shock.

On the nineteenth of May we announced new amended financing facilities. The chart on the left shows how our headroom has increased materially from the start of the financial year driven by BOTH cash generation in the quarter and access to new facilities. Even in a worst case scenario we have significant headroom. The headroom is not expected to be utilised but it is a sensible precaution during this period of uncertainty giving us confidence in trading.

As part of the amended financing facilities we also amended the customer loan book securitisation facility to mitigate the Covid-19 volatility risk. As a reminder, and to help inform the understanding of how our Net Debt moves, the securitisation debt is secured by a charge over certain eligible customer receivables which is without recourse to any of the Group's other assets. It is a maximum of five hundred million pounds and the amount that is drawn depends on the level of eligible customer receivables at any one point in time. This moves up and down flexibly with the level of lending. Looking ahead there is material room available to grow our loan book in a managed way, supporting our credit customer proposition.

Turning to the outlook and guidance for this financial year. Since the initial significant impact of Covid-19 on product revenue, trends have continued to improve. Financial Services revenue has been

impacted by the effects of Covid-19 on our markets. Product gross margin pressure is expected to continue due to mix and a highly promotional retail market and that financial services gross margin will decline due to previously guided regulatory pressures and an increase in bad debt provisioning due to the impact of Covid-19. Our strong operating cost efficiency will continue and the Full Year cost savings are expected to offset more than seventy five per cent of the gross margin decline with bad debt provisioning movements being the primary driver negatively affecting EBITDA. Finally, we expect our cost mitigations and significant reductions to capex and exceptional costs to drive improved cash generation in FY21. This will result in net debt under £400m compared to £498m at FY'20 year end. As previously announced, we will not pay a dividend this financial year.

Looking ahead, Steve will outline how we will move onto the accelerate phase of our strategic plan. Linked to this is refreshed disclosure to reflect the evolution of the business to a full digital retailer. Starting this financial year, we will begin reporting digital KPIs to reflect the fact that we are now a digital business. We will also provide further awareness of our Retail and Financial Services businesses and their beneficial relationship, as well as progress as we execute our strategic plan. I'll now hand over to Steve to take you through our exciting future.

Steve Johnson:

Thank you, Rachel. Today I'm excited to be talking to you about our refreshed strategy. In the last 6 months we have faced 2 significant challenges. Firstly, the impact of the industry-wide Financial Services regulation which we announced in January and more recently Covid-19. Despite these headwinds, I am pleased with the strategic progress we have made over the last 18 months. We have strategically restructured our business and have made significant steps in the transformation from being a traditional retailer to be a true digital retailer which takes us towards building sustainable long-term value. We closed our entire store estate and focused on developing our digital proposition.

Today, 91% of our customers are digital, we now have a larger addressable market and a set of focused brand and product strategies. That's a really solid platform to work from. Our business has come a long way over the past 18 months and I'm truly pleased of what we have achieved and where we are positioned. We are a top 10 UK digital clothing & footwear retailer serving customers in an underserved market. Our markets are large, are in structural growth and importantly, our refreshed strategy will increase the addressable market which we serve. Our Financial Services offering enables us to offer our customers a convenient way to shop and engenders loyalty.

We've also invested in our digital capabilities, increasing our digital penetration. We have demonstrated in the current market the agility and flexibility of our cost base and I would like to thank all our colleagues for their fantastic commitment over the last 3 months, truly outstanding.

So, why do N Brown exist? I am really proud to represent a business which a significant amount of UK customers who are ignored by many retailers. Fundamentally, inclusivity and our desire to serve the underserved are key to our existence. We serve these customers across three key areas;

- plus size;
- under-served credit; and
- more mature customers

All of whom our proposition caters to.

We are already number one for womenswear sizes 20 plus and we believe we can gain share in this growing market. We also have a long history of serving the under-served credit market, today, 80% of our customers are from C, D and E socio economic groups. Almost 50% of our credit customers are not in work due to retirement or unemployment and just over a third of our credit customers are over 60 years of age. Whilst we are committed to keep serving these core customers, we recognise that there is further opportunity in serving a broader range of customers. Finally, our customers are more mature than the general market. We have an expertise in serving and supporting an older customer base, which as the UK population ages we believe gives us opportunity to grow in this market as well. So, without N Brown 11 million customers would have fewer options available to them.

Since I became CEO 18 months ago, our strategic approach has evolved, and I consider there are two phases to this. The “restructure” phase ran from FY18-FY20, in which we identified and began addressing numerous factors which had been holding the business back and contributing to poor performance. This phase is now complete.

The COVID-19 crisis has had an unprecedented impact on all businesses, and ours is no exception. Our focus this year is now to move as fast as we can to the accelerate phase, improving the business to weather the impact, whilst ensuring we are on the strongest possible footing to benefit from our refreshed strategy. I am excited to have this opportunity to introduce you to this next phase of our strategic growth plan today.

Over the past 18 months, we have identified the key factors which have contributed to poor performance. Our strategic plan addresses these issues, and many of the solutions are already in flight. Our growth opportunities were limited by our addressable market and promotional activity, so our refreshed strategy extends our addressable market and updates our product architecture to put us back on a strong growth trajectory. Our Financial Services product was not understood clearly by the market, so we are improving our credit offer to make it more relevant to our target customers. We had a significant brick and mortar footprint and a reputation as a catalogue retailer. We have closed our entire store estate and now only recruit customers digitally. To do this has required a significant investment in our digital and technology capabilities and we have made considerable progress on this front. The organisation was complex and costly and we’ve now significantly simplified the business and continue to build an efficient and sustainable cost base. We discussed earlier the swift and decisive actions we have taken to improve the business this year, as we manage through COVID-19. We have already demonstrated in Q1 the resilience and agility of our business model. The improvement actions that we have taken and, continue to focus on this year, have set the foundations for our “Accelerate” phase of growth.

So, having talked through our transformational journey and where N Brown is today, I’m now going to talk to our future and our refreshed strategy.

Today, we launch our “accelerate” phase, driven by a clear strategic framework and five growth pillars which have been developed to reflect the focus of the business and the external environment:

1. Distinct brands to attract broader range of customers
2. Improved product to drive customer frequency
3. New Home offering for customers to shop more across categories
4. Enhanced digital experience to increase customer conversion
5. Flexible credit to help customers shop

These growth pillars will be underpinned by our people & culture, data and a sustainable cost base appropriate for a digital retailer.

Turning to the first pillar, we have identified a need for distinct brands to attract a broader range of customers. In terms of our approach, we undertook a thorough review of the markets in which we operate, which highlighted that we serve a specific set of customers well, but that we need to extend our reach to a broader set of customers to drive growth. To do this we have re-defined our brand architecture, to give each brand real clarity of proposition and appeal in our chosen markets. This approach quadruples our addressable market within apparel, and also provides a distinct Home offering, all of which brings the opportunity to drive significant sales growth. We will reduce our existing brand portfolio, with the remaining brands either becoming product brands within our rationalised portfolio or being gradually wound down.

Today, as you can see on the left hand side of the page, we have 9 apparel brands and one niche, offline Home brand. We will move to 4 core apparel brands; Simply Be, Jacamo, Ambrose Wilson and JD Williams, and one new mainstream, digital Home brand, Home Essentials.

Simply Be is an online fashion and beauty brand for plus size women. We believe Simply Be is uniquely placed to deliver relevant fashion and fit expertise to a community of women who wish to celebrate their

curves. The target customers are plus sized women age 25-45 with a trend led attitude to fashion, who choose credit to help them shop.

Jacamo is an online fashion brand for plus size men. Unlike many of the mixed gender retailers in this space, Jacamo is focused singularly on men and is a brand committed to delivering style, consistent fit and size inclusion. The target customer is a plus size man aged 25-50 with a trend led attitude, who chooses credit to help them shop.

JD Williams provides an online boutique experience showcasing fashion and home products. You can shop at the same high street shops as everyone else or you can look for something different. Our customer wants the latter... JD Williams will evolve to become a multi-brand boutique which recognises and inspires the individuality that exists in every mature woman. The target customer is a 45-65 year old woman, who is a credit user, with a less trend led attitude to fashion.

Ambrose Wilson is a fashion led brand supported by home, available on and offline that truly values mature customers. While so much of high street fashion is moving into younger, faster fashion, Ambrose Wilson serves the customer who seeks quality, consideration and elegance in the everyday. The target customer is a woman aged 65+, who is a credit chooser with a value for money fashion need.

Home Essentials is a standalone one-stop home brand focused on modern homeware and enabled by a credit offering. We are building a home & living story that will provides complete room solutions that are both stylish and affordable. The target customer is young families with children at home.

We have great product in the business today, and we are now focused on making sure each brand develops its own distinct product handwriting, with product designed for their specific target customer, delivering the right trends at the right time.

Alongside this, we are focused on improving the quality of our garments even further. On Menswear we are working closely with suppliers to ensure consistent fit across all garments, including working brands such as Hype. We are already proud of our fit specialism and will continue to invest in this alongside fabric to delivery great quality and well-fitting clothes for our customers. These initiatives to create better, more relevant product, will help to drive customer loyalty, underpinning our future growth. Another part of improving the product proposition is renewing our good, better, best architecture. We are increasing the mix of inhouse designed ranges across womenswear, menswear and Home and in parallel, we are reviewing the branded product we work with to have a better curated range, which extends the best element of our proposition. On Simply Be we are moving from 50% of the range designed in-house to 70%. This will be underpinned by well-defined, adaptable and responsive pricing criteria. We are starting to measure our performance versus 'Good / Better / Best' and from this autumn we will flex our buying against this performance. These changes will drive order frequency, while ensuring improved customer loyalty.

We've made huge progress with our sourcing strategy over the past 18 months, including reducing the base by 50% to make the most of the suppliers we work with. There are two key points on our sourcing agenda, the first being to increase the mix of UK and European sourcing which will increase our flexibility and our speed to market. This is important as we focus on trend led product, particularly for Simply Be and Jacamo.

The second point is our approach to sustainability. We are focused on a clearly defined roadmap to deliver enhanced sustainability, and I'm pleased to say that we are launching a fully sustainable denim range on Jacamo in September. This will be followed by other important initiatives. We realise that alongside the rest of the retail industry we have a long way to go, but this is a critical step in the right direction. Although N Brown has historically sold home product, it has always been done through our primarily fashion focused websites and hasn't had a clear proposition. We have addressed this with the launch of a standalone website, Home Essentials, in a growing market, with a clear proposition and target market. Let me expand on these on the next slide.

Home Essentials represents the biggest single opportunity in our brand portfolio in terms of growth, with the credit user home market worth 15 billion pounds. Home Essentials has been created to appeal to young families who look for affordability and want to “dress their homes,” leading with soft furnishings and backed by a full home offering. We are also evolving our credit offering to be relevant and competitive versus the wider home market and support the customers’ desire for affordability. Launching the Home Essentials standalone brand back in April has been one of N Brown’s success stories of the year so far. Clearly, launching a brand is significant at any time, but having just gone into lockdown and with all our teams operating remotely for the first time this felt like a particularly significant achievement. Lockdown has given Home Essentials exposure to new customers from the outset, it’s already contributing to the sales of the group and has seen good growth in demand since launch. Moving on to talk about some digital capabilities and investments, a strategic priority is the delivery of a new front-end website, which will deliver a range of benefits including improved SEO and conversion rates. This is important because our current natural search ratings are poor and there is significant scope for improvement. We’ve taken a mobile first design principle, following the market trend for increased sales through mobile devices.

The new website will deliver a range of customer benefits including better search along with size and fit recommendations. Simply Be will be the first brand to benefit from this, with other brands following shortly thereafter. We have a range of other projects in the pipeline all focused on delivering benefits for our customers and progressing N Brown with a “digital first” mentality

This includes:

- a refresh of our warehouse management system to support better delivery;
- new product information management systems feeding better quality information about our product to the websites; and
- a range of activities to support our service proposition.

Our credit proposition is a key differentiator for us, enabling customers to shop through inclusive lending, whilst providing appealing, convenient and personalised integrated offers to customers. The regulatory backdrop is challenging, but we are adapting and evolving our proposition for the future. N Brown’s credit proposition is, to us, what Next Pay is to Next. Our investment in data and analytics is supporting better lending decisions at application and through the customer lifecycle.

This slide demonstrates why credit is so important to our business, and why it is key to our strategy that we expand our credit proposition. Customers who use our credit proposition spend more and are more loyal than cash customers, shopping 5.25 times more frequently. Many of our credit customers are longstanding, with 54% of the base having been a part of the book for 4 or more years. Many of these customers have grown their available balances and so have greater purchasing power than newer customers. We are prioritising keeping these customers engaged and trading, as they represent the most valuable part of our customer base. To continue to support our financial services business and build credit penetration with new customers, we need to offer a broader range of credit products.

A strategic priority is the delivery of a new Financial Services platform that will support a multi-product digital credit proposition, helping us compete with other popular market standard offerings. In addition to driving incremental retail demand, it will increase credit penetration through appealing to a broader, more affluent range of customers in line with our brand strategy. It will also drive business and cost efficiencies within the organisation.

So, where does this strategy take us? At the core of the strategy is quadrupling our total addressable market from 5.5 billion pounds today to 21.6 billion pounds in future. We will expand on our current heartland by targeting three new areas:

- Firstly, trend-led , plus size customers that prioritise affordability
- Secondly, non-plus-size customers that prioritise affordability
- Thirdly customers who prioritise quality

This unlocking of new customer groups will create a major opportunity to return N Brown to sustainable, long-term growth.

Our growth pillars are underpinned by three key enablers. The first of these is our People and Culture. Over the past 18 months, we have made significant changes to the Executive and Senior Leadership team. Around the Executive team, we have welcomed 3 new members since the start of 2020 and I'm delighted to have their fresh thinking, new skills and energy around the table. Within the Senior leadership team, almost a third are new joiners within the past 18 months, bringing with them key skills and experience to progress our journey as a digital retailer. To list a few skills, we have introduced more data science, risk, cyber security, design and user experience experts to really drive our digital growth. We already have great talent in the business and I'm really pleased with the talent we've brought into the organisation and feel we now have the right team to drive the success of the group as we enter the next phase of our journey.

Data is our second enabler. The 18 months have focused on putting in place foundations, including building out a new internal data science function, developing customer lifetime value models to drive average order value and average order frequency, as well as improved forecasting. We are now building out our data architecture, enhancing our cloud based data lake, building out our data warehouse and leveraging our use of AWS to drive faster decision making through the business.

Our final enabler is our cost base. As part of the review of our strategy we undertook a thorough benchmarking exercise which revealed that while our overall operating cost base was broadly in line with peers, there are significant opportunities for our cost base to move forward. Historically our marketing expenditure has been significantly higher than peers. Our spend has been inefficient and in many cases unprofitable. This is changing. Investment in natural search will practically eliminate spend on 'Pay per click' over time, while spend on paper will continue to decline. Marketing spend will be focused on more efficient and effective channels to drive lower costs of acquisition and engender loyalty. This is a significant opportunity for us to deliver a sustainable cost base fit for a leading digital retailer.

So where does this strategy place N Brown in 3 years' time? We will be a retail-led business with strong brands operating in structurally growing markets. Our improved product will drive increased frequency from our customers and we will continue to attract new customers. The investment in digital capabilities will create a great customer experience, further driving loyalty and frequency. Our FS capability will be transformed with a new platform, offering broader, more relevant products and importantly, the impact of recent regulatory changes, will have been absorbed.

So, in summary, in the last few years, we have taken significant action in restructuring our business towards and rectifying issues of the past. And in the last 3 months we have taken swift and decisive steps to improve the business in the current, unprecedented trading environment. This has resulted in sufficient liquidity, working capital headroom and covenant flexibility to manage effectively in current circumstances. We have refreshed our strategy to unlock significant addressable market potential in the future, based on five deliverable pillars and underpinned by N Brown's enablers. Finally, we have identified various initiatives that we believe could further accelerate the significant longer term potential of the business. We are excited about the future for N Brown and look forward to delivering our new strategic plan for the benefit of all our stakeholders.

Thank you for listening.

[Q&A Session]

Matthew McEachran:

Hi, good morning, everybody. Can I just check? Have you a clear line? Are you able to hear me okay?

Steve Johnson:

Yes, yes, good morning.

Matthew McEachran:

Great. Thank you very much. I've got three questions, if that's possible. The first one just relates to an area of the business which has been challenging over the last couple of years, which is in relation to the non-core brands. I'm just wondering if you could elaborate very briefly on the plans for the non-core and also the related debtor book. Question number one, thank you.

Steve Johnson:

Yeah, do you want to give me the three questions, Matthew, and I'll try and deal with all of them?

Matthew McEachran:

Yeah. Sure, yeah. The second question relates to the very impressive cost performance year to date. And I'm just wondering how much of this is likely to be a permanent reduction either in fixed costs or through improved efficiencies? And for example, in marketing, roughly how much was the spend on print in FY20? Because I'm pretty sure that's probably an area where you will be rating back the spend. That's question two. And then third question relates to the securitisation and under FCA guidelines, obviously, there's an allowance or treatment for customers that are affected by COVID-19. I'm just wanting to check if the lender is happy to treat them as ongoing customers, rather than remove them from eligibility. And if that's the case, how long that would last for before you end up having to fund the difference through the RCF? Thank you.

Steve Johnson:

Sure, okay. So I will take those questions, Matthew. I'll give you a high level answer and I'll probably hand over to Rachel to give you a bit more detail on the cost side of things. In relation to non-core brands, since I have been leading this business, the one big question I've been asked is, where does this business go? What did it look like in the future? And in the future, we will have five brands. What we are going to do with our non-core brands, which we have already built into our internal plans, is to effectively either move them across as a product brand. So, for example, Fingleaves could be sold through JD Williams as a boutique brand. It could also be sold under Simply Be. And we do see our customers buying into that product already. So the Fingleaves brand would disappear, but still be sold through five brands as a sort of product brand within our business. So it's important to recognise that we're not walking away from all of that in the sense of your question about the debtor book and things along those lines. There will be one or two brands that we will wind down. But that is already in our thinking and in our plans and actually the right thing to do.

And in terms of cost performance, how much of it can we expect to go forward? Well, look, I mean, you know, one of the big things that we've been doing and what we've been able to do as a result of the pandemic is accelerate our strategy. Our strategy was always about moving out of non-core marketing and moving into channels that you would expect a digital retailer to operate from, lower cost channels. So we're very pleased with our social media following and uptake. We're very pleased with our app downloads. And in fact, on Simply Be, 15 percent of our trading is coming through our apps now. So that is increasing at quite a fast pace. And what that enables us to do is talk to our customers in a much cheaper way, of course, than the historical ways that the business operates it. So that's why I'm pleased to be calling time on the restructuring; we've got a solid foundation to build from. And I would expect to enable us to see those cost efficiencies continue, because that's what we're trying to do at the strategy level. But I'll allow Rachel, when I'm finished on the final piece, to cover that question in a bit more detail.

On securitisation, effectively, you're asking the question, I think, are we giving sort of forbearance to customers who are requesting help? And the answer is yes and, you know, from my perspective, our job here is to keep our customers shopping and support them to improve the customer outcomes at all times. And our financial service business is working with customers already and will continue to do so. You know, it's certainly not new for us in our business. And, frankly, we've been able to adopt the

already well laid out policies and processes to support customers at this time, which we're very happy to do. So that's the sort of high level view. Hopefully, I answered the questions, but I'll hand over to Rachel to give a bit more perspective around some of the cost pieces, particularly.

Rachel Izzard:

Thank you, Steve. To be fair, you covered it really well, so I'll just put a little bit more colour on it for you, so you asked, how much is permanent, Matthew. And for me, what good looks like in this is not that our cost base is at a fixed set of operating costs that we treat to the fixed element, that it moves with the size of our business. So I would expect it to be ramping down if we see demand come off. But I'd also expect it to be flexible to move up as our demand comes back. But if you look at our guidance, what we said for the full year is we expect the full-year cost savings to be considerable, not just quarter one, because we obviously went hard in quarter one in light of the volatile market. We were really successful with that. And you can see we offset a considerable amount as the gross margin pressure, through 43 percent reduction in operating costs.

That wasn't just marketing. It was across the board. And it wasn't just blanket savings; it was targeted. So within that restructuring of the cost base in marketing, for example, year on year, we've more than doubled the proportion of our marketing spend that is based on social media, because obviously that matches our strategy in terms of digital incredibly well. And it's a very effective form of marketing. So we've restructured for your cost base and we would consider that level of restructure to be permanent. But we would say our cost, flexing in line with volume, and we will be introducing a little bit more marketing as we go through the year. But nowhere near back to the levels of unprofitable marketing that we were doing before. So significant progress. And we believe it is sticking. In terms of how much is print? We are still spending some money on print because, as Steve said, we still have a range of customers. And we are doing that in a proper way. Is there a little bit more room to be had of that strategically over the next 18 months to two years? Absolutely. But a large chunk of the restructure has already happened. And so really good progress has put us in considerably better shape. And I say thank you to Craig, as he left me with a considerably more flexible cost base that's well-matched to our new, refreshed strategy as a digital player. So with that, I think I'll hand over to Craig on the lending question.

Craig Lovelace:

Yeah, just to reiterate what Steve said, to your point, Matthew, the facility is structured with our lenders who understand the business very well and it specifically recognises the period of FCA forbearance which has been in place, and we called that out in our in our May announcement as well. So we have the support of lenders. They recognise the forbearance and that's part and parcel to our solution.

Rachel Izzard:

And in a moment, you'll see in our relatively long prelim RNS, you can see within that, we've called out the level of customer balance that we've got on forbearance at the moment, which was 17 million at the point we cut the RNS of a growth loan book of 600 million. And so well managed. We're meeting the guidance; we're meeting what we need to do, and we're supporting our customers but at a relatively low level at the moment compared to our overall growth loan book.

Steve Johnson:

Okay, hopefully that answers your questions, Matthew.

John Stevenson:

Brilliant, thanks. Morning, everybody. I've got three questions as well, if I can, just pulling on from Matthew, actually, on the marketing side of things. I mean, I don't know if you can maybe comment on how you think about a normalised marketing cost as a percentage of sales, or maybe you could even touch on the improvement in the cost of acquisition from the work you've been doing and obviously that push towards digital. Second question was on customer behaviour over Q1. I don't know if you can comment on how it differs across the brands and if it's helped in terms of the online transition of the older customer base, particularly Ambrose Wilson. And then final question just on the persistent debt regs, can you comment on how material this is for N Brown, I don't know, what proportion of credit customers are in the sort of minimum-only camp, and how it's going to affect you.

Steve Johnson:

Sure, so I'll pick up the second question in terms of customer behavior, and then I'll hand over to Rachel

and Craig for their marketing costs question and persistent debt, if that's okay. So, I mean, in terms of customer behavior, we saw quite a significant drop off, which we announced initially in our first RNS, down 40 odd percent. And that has been improving ever since and continues to do so, which we've been clear in terms of highlighting. And actually, when we sort of stand back from it, for sales of 75 percent on a like-for-like basis when we've effectively taken 80 percent out of the marketing budget, we believe that's a reasonably credible performance. And what's happened is really a couple of things. So first and foremost, the clothing side of the business did step backwards. We've made that clear. People stopped purchasing clothing. We've seen that improve a little bit since. And the other thing that happened is people shop more into home and gift, particularly, so, you know, our desk wares and home office were up 200-and-odd percent. We've sold a lot of stuff for the garden, etc. And that's been quite helpful, particularly pleased with being able to launch, from a remote perspective, a new business, which is really factored in and really helped us match the customer demand at the time. So on the perspective of what have they been buying, it really has been a pivot towards home and gifts. But we are seeing clothing starting to recover. On a customer behavior question, is it different brands? We actually would look at it on the basis of age. So we've seen sort of certainly our younger customer population shop more and our older customer population shop less. And that is reflective as to whether or not they are digital or telephony based consumers. Simply, we've seen that in our stats. And therefore, you can take a read across to the businesses that we operate. So hopefully that sort of gives you a steer, John, and I will hand over to Rachel to pick up on the marketing processes and maybe Craig on the persistence end.

Rachel Izzard:

So from a marketing perspective, I laugh at the phrase normal because I don't think anybody found anything normal about quarter one. So it was a great opportunity for us to really try out some of the theories coming to this. And so for me, I saw COVID in quarter one as the opportunity to accelerate the strategic change that Steve was talking about. And let the team try things and see what works and really implement some of the improvements we've put through in terms of, for example, on the data side, customer lifetime value in performing our marketing, so we understand with guardrails what good looks like in terms of how much we could or should spend and where it's not worth spending, where it is worth spending. There was a lot of that kind of trial that was happening through quarter one, which was incredibly effective for us in terms of learning. So I think we take that learning out of quarter one into the back end of the year and it will stabilise at the level. Do I think it's too early to call a number on that? Yes, it will be a significantly lower percentage of revenue than we've trended at before in last year, for example, John. I think it was slightly higher than quarter one, obviously, but it will be considerably down. And I think we can continue learning through the years to see where that lands. And then as we accelerate into the strategy and build over time, you can really see, in particular in the five pillars, improve product and enhance digital experience. For me, that's absolutely great for the customer, but it's also great for the marketing efficiency because at the point where we've got enhanced digital products and digital experience on natural search should kick in more. Well, I won't have to buy the search as much. And we'll get a second wave improvement on our marketing efficiency.

Similarly with the products, when you've got a really strong product out there, your customer loyalty is there naturally. You're not having to, again, buy it with the marketing. So I think we will settle into a good level on the back end of this year and then look to push off the back of the strategy accelerating through with products and digital coming in, in particular, over the next 18 months. We should be able to try some more changes as well. And then all the way through that, we'll continue to iterate the use data to inform what we do with marketing, rather than scattergun what we do with marketing. So definitely step change this year. Then looking ahead, looking forward, I think as we accelerate into the strategy, we can reassess it again.

Craig Lovelace:

And John, just briefly on persistent debt, I mean, we've obviously flagged it on an ongoing basis, especially since January, you know, Q3 update. We continue to apply the communication protocols that we need to, which is getting in contact with customers who are deemed as being in persistent debt, or for clarity, that's where somebody over a period of 18 months has paid more in interest fees and charges than they've paid of their principal. So we haven't deliberately called out the quantum involved because it's an early stage in January, it's an assessment. We still continue to communicate to those customers. But I think a very important point is that when you look at the cash collections over the last three months, there was already a natural attrition, a natural peer of customers in persistent debt if they continue to pay down their balance, so if they make payments and they weren't shopping that much,

that often just self-cures themselves out of persistent debt. Given the quantum of cash collections being in line with the prior year, there's a great danger in giving any views at the moment, because actually many of those customers may well be taking themselves out of persistent debt by carrying their balances down. I certainly think it will be in a position in October to give greater clarity on this because you will be getting close to that December deadline. And that will certainly bring to the fore an impact that will be in FY22. I think that's an important factor as well. Writing to customers, the next stage in December, that still gives many options for customers to reduce their balances. But I think right here, right now, we're not giving statements on the quantum of balances, if only because it's a moving feast with the amount the debtor book is moving and reducing in size.

Steve Johnson:

Hopefully that answers your questions, John.

Clive Black:

Good morning, everyone. It's actually Clive Black, but Darren is with me. A few questions from me. Firstly, just bringing together the affordability, the customer credit limits, and the persistent debt together, can you just give a consolidated view as to what you think that means for the future of your financial services business? And secondly, you talk about developing the digital intelligence capabilities of the business. Could you give an indication what that practically means for your customers in terms of the experience they receive? Thirdly, could you maybe say a word about returns, given you are now an over 90 percent digital business? And then just lastly, in terms of your supply chain with a rationalised brand portfolio, what does that mean for the number of suppliers, maybe the average order size and perhaps your overall SKU count, please? Sorry for the list, but thank you.

Steve Johnson:

Yeah, okay, thanks, thanks. So let's take it from the top and work through them. I may hand over to some of my colleagues for one or two of the answers, but fundamentally, if we start with the financial services changes, what's actually happened? So last year, we made changes to implement changes to our scorecard, which effectively was as a result of introducing new rules around affordability. And ultimately, what that's done is effectively slow down some sales in the same way that when we introduced the second set of regulations, which was the credit limit increase programme, we were effectively saying to customers, do you want a credit limit increase, or don't you want a credit limit increase? And some customers have said they don't want a credit limit increase. So, again, in that situation, that has slowed down some of those sales. And then as we come into this year, we announced that we were dealing with customers in persistent debt. And we have some customers that we're helping through that, and to Craig's point earlier, as he suggested, if people are paying down balances quicker, then ultimately there'll be less customers in persistent debt. But there are staging posts in how we have to work with our customers to ensure they get a great outcome. And we are at month 36 to work with these customers, to help them, and provide options and opportunities for them to get out of persistent debt. And that's a range of different things. We can talk to them about the charges that we've given them. We can talk to them about taking a longer time. We can talk to them in all sorts of different ways to help those customers and keep them shopping. And that date is December 2020. And it isn't a sword of Damocles in the sense of every customer in December 2020. Clearly, it will roll forward and annualise over the next year. But we do have those impacts in our planning, and we've been very clear about those in our RNS, which we issued in January. And in terms of, does it hold us back? It slows us down. It doesn't hold us back. But I'll pass over to Rachel when I've finished, and we'll talk a little bit more about that.

In terms of digital capabilities, well, you know, there's a massive amount in terms of what are we actually doing, from increasing page speeds, to increasing the levels of personalisation that exist within our customer journey, to ultimately being able to show our product in a much more exciting way, to ensure that our customers can see what it would look like to them, and certainly in terms of size and fit, given that's our USP. So, all of those advantages from a customer perspective, we believe will engender more loyalty and repeat shopping, and I'm really, really excited about the journey that we're going to go on.

In terms of returns, we believe if we get our fit right on our apparel, that our returns would actually be lower than a market norm. Actually, we would encourage people to shop with us and try until they find the right fit. We understand for our customers that our market offering is absolutely set up to enable

them to find what's right for them. Certainly initially, and this is where the credit accounts can play a massive growth. Customers can order a few things to start, add them to the account and return them, if they see that is okay. So, I'm not objecting to returns to new customers, but actually what we find in the more medium term is that our returns rate, we believe it's probably lower than the market norm. And that's as a result of our size and fits specialism. Once our customers like our products, they tend to come back, know what they want, and keep buying.

And on the final piece of the supply chain. Does it mean a sort of rationalisation of the supply chain? Yes. In fact, we've already rationalised the supply chain 50 percent over the last 18 months. And on top of that, we are bringing some supply closer to home, particularly for our more trend-led brands. And that's UK and Europe. And on top of that, with our new good, better, best architecture, we will be absolutely looking at every one of our five brands and making sure that we have the right curated sets of products for our customers under each one of those brands. I do believe that will be a lowering of the SKU counts. And so, we'll go through that process. I haven't got the number Clive, but I can definitely tell you it's a lowering of the SKU count. And I would like to see in the future our products under each one of those five brands absolutely, with the handwriting for that brand. And absolutely, our customers finding exactly what she wants. And to get there, we've got a bit of work to do on the product side, which is why we've just recently brought in the retail CEO who comes with a very, very strong product background. So, I'm grateful for the questions. I can only see improvement in all of those areas and the strategy addresses of don't know if you want to say anything specifically about the impact of the financial services regulation. I think that's the only question I would pick up.

Rachel Izzard:

So, I think when we went back to Craig's comment before, some of this is very hard to tell since the double count vote is what might be happening with COVID-19 as well, in terms of what will happen with customer behavior anyway as we trade through this year. We obviously, will be making IFRS 9 provision this year. Looking forward about what's happening with the macroeconomics. I'd rarely point this out on an analyst call. In terms of note 16, I'll post an issue on that event. It's quite voluminous information in there and walking through what we felt could be the COVID-19 impact. But at the moment, it really could be because, as Craig touched on earlier, customer behavior hasn't yet changed. Our collection rate is holding up. And this time last year, we're not seeing it yet hit collection rate to IFRS 9 provision. A lot of that is essentially looking forward and estimating what might happen with macroeconomics, what might happen with customer behavior. So, he put that together with what Steve was talking through about, what, the known knowns were before coming into this period. I think there's a lot of monitoring of management that we will be doing with what is best through the business through the year. And we are very carefully have done that through Q1. I've been really impressed coming in how much this is business as usual for Dan and FS team, rather than having to respond and find a process. You know, we're used to working with customers and supporting them through credit. So, I think this is going to be one that we'll develop as we go through the years.

If I touch on a couple of the other ones Clive, in terms of the returns rate. And for FY20, the returns rate was broadly similar with FY19. And then, I might come into quarter one and expect down quite considerably into quarter one. Now, as I said, with the marketing efficiency, I'm not sure how much normality Q1 can be for any business at the moment. And some of that was our mixed change towards home and gifts, because home and gifts obviously had to considerably lower return rate. But yeah, we saw a significant reduction in returns through Q1. We started to see, as fashion and apparel is returning, we started to see it normalise back out, but not at concerning levels, at pretty strong levels. So, no concerns. And as I said earlier, if we bridged Steve's view on the strategy, we can only see items getting better for that as we improve the product, improve the fit, keep going with the FS offer, we should all play to a better products for the customer, whether that's a digital product, a physical product, or an FS product. And then, an improved marketing from our perspective, an improved profitability from our perspective.

So, I'll hand it back to you Steve.

Steve Johnson:

Okay. So, hopefully that answers the questions Clive. I mean, I guess, you know, frankly, we're really excited about how we can move forward from accelerator perspective. And we think it's great opportunities for our business.

Simon Bowler:

Hi. I was just wondering if -- I know it probably seems like a long time ago now, but if you could just comment today on the trading patterns at the end of fiscal 20, from product sales and gross margin it looks like they perhaps came in quite a trend below your kind of views and expectations in January. Just wondering if you could kind of share a little bit of insight in terms of what you were seeing in the business pre-COVID.

Steve Johnson:

Yeah, I mean, I think just at the highest possible level, so. And I mean, you know, look, as we came into that January, February time, there was clearly some sort of news out there that was starting to sort of hit in terms of supply chains in particularly around China area. So, you know, we chose to actually start to accelerate our strategy prior to year-end. We pull back, particularly in terms of relations to the marketing spend. So, when you look at the end of year from a product perspective, we need that in the context of a performance on operating expenses, which clearly was ahead. And so we had already started to step into that. It was a great step into it. And then as we came into March, clearly, we went full force with it. So that's the sort of high-level view when you're looking at both movements, particularly. But Craig, anything you want to add?

Craig Lovelace:

Yeah, sure. So, that's obviously, you know, Q3, and that's where we get guidance of 70, 72 million. There's the simple bridge between that and the ultimate results of 59.5. You largely had some IFRS 9 macro overlays. These were not COVID related, and I'll come back to that in a minute. They were actually more a recognition of an economic outlook that was more genuinely bearish than it had been in the past. But that's not COVID related. The practical fact is, with the balance sheet tied to the 29th of February, we cannot recognise COVID as an impact on that balance sheet because it hadn't been considered a pandemic until the 11th of March. So, implications for the balance sheet were not hitting FY20. They will hit FY21 and hence the focus of the post balance sheet event. But the two primary reasons one IFRS 9, recognising a less beneficial macroeconomic outlook and secondly, stop provisioning. And just coming to that. That was really recognising that we expected pre COVID, the market still to be challenging, still to be discount focused and promotionally heavy. We were taking a prudent approach in our stock. Since then, as you've seen, the stock numbers are actually reading very encouraging. And the stock numbers in unit terms and value is extensively down again to the second year. So, nothing of undue concern that it was a lead indicator. Those were the two primary indicators. The final point is, again, in the FS margin bridge year on year, you will have seen that the debt recovery market to which we sell debt, the prices generally are lower. That is not unsurprising given the wider circumstances. So, those three factors contributing to bridge that gap.

Simon Bowler:

Okay, great. Thank you. And then one other question, if I may. Just in regards to I guess the growing concern in statements and commentary that's within what you released this morning, and part of that talks about potential for asset sales. And I'm just wondering beyond those we can kind of see quite obviously on the balance sheet. Can you give us a sense one of the asset backing them maybe within the Group whether there's the kind of business pieces of property or anything like that we should be thinking about.

And also going to give a sense to the extent that it's possible a sense of some kind of timeframe around renegotiation RCF and securitisation of facilities, I realise that's a difficult question.

Craig Lovelace:

From a growing concern perspective, we have a clean audit opinion and I think that's really important. But the reality is, given that we have facilities returning in September and December '21 respectively, the woe of uncertainty due to COVID-19 means there's an inherent uncertainty into that approach. The flip side is you've seen the cash generation as the Group as rapidly as Q1, getting net debt down to 450. And actually, our facilities are significantly less drawn on than they have been in the recent past. So, that provides both with supportive lenders and that liquidity generation profile, a real cause for comfort around refinancing. And I think that's really the fundamental fact, the cash generative nature of this business through the most recent period of time. And so, there's absolutely no reason to believe that refinancing is absolutely part of normal course.

Rachel Izzard:

So, I'd add to that well. I'd just echo what Craig said in terms of we obviously need to be appropriate before going concern review. Every company is doing that at the moment in conditions that we're all facing. That was a good, robust review, went through all management actions and a good conversation with the board and with the auditors. But the fact that we're cash generative in Q1, we are already netting down our unsecured debts, and we have flexible secured debt with the loan book. We're in much better shape than year end. And that's only three and a half months since year end. And we can see a clear trajectory through this year to continue to net down the unsecured position. That's happening week on week on week. So, we feel incredibly confident about coming into the back end of this year and the end of Fiscal Year 21. And at that point, we'll be back with our supportive lenders having a very practical, normal conversation about refi in a normal process rather than a COVID-19 process. So, it was we have a very voluminous growing concern note in there because that's only appropriate in these times. We're confident in our cash generation this year, we're confident in improvement in our balance sheet and net debt.

Craig Lovelace:

I mean, I'll just finally wrap it up, Simon. There's the practical fact is we have very supportive long-term lenders. We only have two banks in our facility. They know the business very well. And indeed, as was shown by the announcement in May, we work collaboratively with them on the CLBILS process and indeed on the securitisation metrics. So, they know our facilities very well. They know our facilities, they know the strategy of the Group. In terms of your final part the question, in terms of assets, we did call out in our previous statements about the nature of the balance sheet, irrespective of the facility, that is still a positive place to be in terms of freehold assets. Hopefully, that covers the question, Simon. Thank you for them.

Matthew McEachran:

Thanks very much. Yeah. Could you just provide a little bit of background around the outflow from creditors? I'm assuming there's some timing differences on payables there. If you could just walk us through that, that would be very helpful. Thank you.

Steve Johnson:

So, I will look to Craig to help answer on this question. Craig, do you want to pick this one up?

Craig Lovelace:

Matthew, are you cross-referencing a specific notice in the back of the RNS? There's multiple categories of creditors. There's trade creditors. Anything particular?

Matthew McEachran:

I'm referencing the 41 million outflow overall for the year.

Craig Lovelace:

I mean, imagine in general terms, that's a mix of trade creditors. There may well be some tax creditors in there as well. Just let me have a quick check, Matthew. I can come back to that. But there's nothing untold or unusual we've done in the management of creditors at the year end, at all. I mean, there's obviously a lower level of purchases in general terms, but that's because we've been tightly managing more cash flows throughout the year and obviously operating expenditures down 10 percent.

Matthew McEachran:

Is it possible that the timing of the year had an extra influence there?

Craig Lovelace:

No, not that much. I mean, there's no unusual nature there. No, I mean, I can take that away, but there's nothing from a trade creditors perspective that leads me to believe that - we certainly haven't done anything different at the year end on trade creditors.

Steve Johnson:

Okay, Matthew. I mean, I think hearing Craig, there's nothing that is unusual in there. I think, you know, to get the details down I think Craig would need to take that away. Hopefully, that's okay, Matthew.

N Brown Group FY20 Results and Q1 FY21 Trading Update

Operator:

We don't have any further questions.

Steve Johnson:

Great. In which case, I just want to thank you all for your time. We had a couple of bumps in the road, but fundamentally, the business is improving. We've got a great refreshed strategy and we're excited about the future. Have a great day, everyone.

[end of transcript]