

Steve Johnson: Good morning everybody and welcome to N Brown's first half results for FY21.

I am joined by Rachel Izzard our CFO and unfortunately, once again, we're unable to be with you in person due to the ongoing pandemic – as always, I hope you are all safe and well during these challenging times.

So, turning to the running order this morning:

Firstly, I'll give you a brief overview of our announcements today as I'm sure you'll have seen this morning in a separate announcement, our proposed equity raise. I will then hand over to Rachel who will talk you through the Group's interim results. I will then talk a bit more about our strategic progress before turning to the opportunities we have to accelerate, with the extra capital available from the raise.

Since we last spoke to you in June, our product revenue has continued to improve throughout Q2. Our Financial Services business has remained resilient and we've continued to make savings across our cost base. Our refreshed strategy has made good progress, as we entered the acceleration phase this year - I will talk you through this in more detail as we look at our five pillars shortly. This morning we also announced the details of our proposed equity raise, which, if successful will help strengthen our balance sheet and enable us to invest more in our strategy

I'll now hand over to Rachel to talk you through our Interim Results.

Rachel Izzard: Thank you, Steve

The start of our financial half coincides closely with the impact of Covid-19 on the UK economy, so Half 1 has seen material movements, both due to the impact of Covid-19 but also due to the acceleration of underlying strategic changes. From mid-March there was an immediate and severe reduction in customer orders and revenue followed by a gradual recovery over the course of the half which is reflected in our improved revenue trajectory in Q2. In parallel to this the strategic change has come through, demonstrating the inherent strength of our restructured business model – we increased digital penetration to 92% and rapidly flexed our cost base to offset more than 90% of the gross margin decline. Within that gross margin decline we've booked a £17m additional IFRS9 bad debt provision to cover possible future defaults in light of the uncertain macro-economics. To date customer behaviour has yet to show any material adverse change and payments from our customers have remained resilient. This combined with rigorous cost control has enabled us to generate cash despite the challenging environment and reduce our net debt by 17%. Our refreshed and extended bank deals have enabled us to remove the material uncertainty we had at our last year end. In summary, our resilient and more efficient business model meant our underlying profitability moved ahead in the half, and we have made a start on de-leveraging the balance sheet for the future.

Despite the immediate impact that Covid had on the UK economy and upon our sales we are pleased to report that the business remains profitable. Excluding the impact of the additional £17m IFRS9 bad debt provision would have seen all profit measures (Operating Profit, Adjusted PBT and PBT) favourable to last year. Moving below the line, finance costs are slightly higher due to higher opening borrowings. And, as we had previously guided, Exceptional costs are significantly lower. We have incurred £4.5m in H1 in a number of areas and remain on track for full year exceptional costs of less than £10m. In the same period last year, we booked an additional £25m final PPI redress provision. We continue to hedge our anticipated \$ purchases to manage volatility of our cost base. Fair value adjustments to financial instruments represents the movement in the fair value of foreign currency hedging derivatives during the period. The adjustment has reduced from a £12m credit in HY20 to a £4m charge in HY21 due to unrealised fair value gains on these hedges in HY20 being replaced by unrealised losses on such hedges. Lifting back up and looking at trading performance, this graph steps us through the material movements and the underlying step forward in profitability. Moving from far left to far right, the reported adjusted EBITDA is £6.1m lower than last year, however

1. Within that, H1 FY20 benefitted from a £7m IFRS9 one-off credit whereas H1 FY20 has had an additional £17m provision for predicted economic downturn overlaid.
2. Excluding this noncash £24m IFRS9 swing, the EBITDA has stepped forward by £18m.
3. The impact of Covid-19 on demand pulled down both FS and Product gross margin, but was more than offset by the significant volume and efficiency savings through the cost base
4. Combined we took £71m or 41% out of the cost base compared to revenue being 17.6% down

I'll now step through the individual drivers. Starting with revenue, after an initial deep shock in March / April, Product revenue recovered in May and further still in Q2. As we have emerged from lockdown, and subsequently completed the H1 audit, customer returns have been lower than anticipated. Phasing this release back into the months of sale shows the underlying trend with Q1's down 25% vs last year improving to down 16% in Q2, so steady improvement. Across both quarters, our home offer has been key enabling us to pivot towards the rapid and sustained shift in customer demand to products for the Home and Garden. As the extent of Covid 19 became apparent we cancelled and rebased our clothing and footwear purchases. We also materially reduced our marketing spend, c50% of which is now variable at less than 1 weeks notice and is supported by AI tools enabling us to work smarter and reducing unprofitable PPC spend. As the new stock builds and the marketing activity is resumed we expect to see further steady improvement in Product Revenue in H2.

In Financial Services, revenue is down as expected in light of the smaller debtor book due to lower product sales and solid customer repayments. The strategic development of our home and gift proposition has generated an increased mix of Home sales from 26% last year to 41% this year.

Home and gift products have both lower gross margins but also significantly lower returns than clothing and footwear so whilst it changes the average margin we are comfortable it drives overall bottom line. Over and above the mix change we also took some margin erosion to make sure we worked through the stock and made the most of the working capital inventory. This means we come through summer in a strong position with our closing inventory £14m lower than at the year end and £37m lower than at the end of H1 last year. That's been good for working capital and also sets us up well with a cleaner slate for the new product purchases inline with the strategy into the new seasons with relatively little old stock overhang. From a financial services perspective, the first thing to flag is that the customer loan book has been very resilient throughout H1 – repayment rates have been consistent with the previous year and the arrears have been lower leading to a reduction in the underlying bad debt provision and 330bps improvement in FS Gross Margin. In light of the forward uncertainty for macro economics we have provided an additional £17m under IFRS9, inline with the range estimate discussed at year end, but again we are not yet seeing adverse customer repayments. And finally, we usually do a bi-annual debt sale, but this year we haven't needed to do that from a cash perspective as H1 has been strong, so are deferring to a consolidated more effective single sale later in the year.

All in all we are happy with how the loanbook is performing and have supported our customers appropriately through the period. Establishing a stable and efficient digital retailer Cost Base is one of the core Enablers of our strategy. As you can see we had already made inroads into this over the previous two years – including exiting stores and the USA. Coming into this period, we took swift and decisive action at the onset of the pandemic to rigorously manage costs across all areas. The speed at which we could pivot demonstrates the revised high level of flexibility in our cost base, well suited to navigating uncertain times. In total we reduced OPEX by 41%, well ahead of the reduction in sales, and offsetting more than 90% of the reduction in gross margin. Marketing costs were the largest reduction and this came from both volume and efficiency, with the latter aided by the strategic initiative to use predictive AI to understand Customer Lifetime Value and target our marketing spend accordingly. Under the CJRS support scheme we have furloughed some staff across the business and received c£3.3m of support. These savings are included with Warehouse & Fulfilment and Selling & Admin costs.

Exceptional costs in the period include redundancy costs to resize the business post furlough in light of the reduced (but improving) demand. At the year end we had Net Debt of £497m.

This is differentiated between our securitised facility which moves up and down with our loans to our customers and the associated assets, and unsecured core net debt which is the draw on our standard group unsecured funding lines net of our cash holding. Starting with the securitisation debt, the size of the loanbook has reduced over the period with the step down in sales combined with the healthy customer repayments. This net repayment of loans to us of £47m, then means we've repaid the associated £41m back to the bank and net released £6m of working capital into reducing unsecured net debt. The remainder of the £45m reduction in unsecured net debt is the EBITDA generated in the period combined with

tight control of working capital and capital investment as well as the suspension of the dividend.

This enabled us to paydown £50m of the RCF. To activate and maintain the CLBILS facility we needed to draw down £2m. All of this generated closing Net Debt at end August 17% lower than at the start of the half, and we've reduced the draw on our unsecured facilities to £77m.

Looking ahead, product Revenue trends are improving but customers remain cautious and we expect to continue to see relative strength in sales of Home & Gift compared with Clothing and Footwear. Product Gross margin pressure will continue as a result of the product sales mix and the market remains promotional. The strong operating cost efficiency is continuing albeit at a lower level as we move back to investing where there is opportunity.

In summary, despite the uncertain times, we are pleased to report that we continue to trade in line with Board expectations.

Our business model is digital, with a broad range of product categories and a highly flexible cost base. We are confident of offsetting at least 75% of the gross margin decline across the full financial half. Our guidance on CAPEX, Exceptional items and Net Debt remains unchanged – noting that this guidance is pre capital raise. I'll now hand you back to Steve to talk you through progress on our strategy in the half.

Steve Johnson: Thank you, Rachel. I'll now talk you through our strategic progress in the half.

I am really proud to represent a business which serves a significant amount of UK customers who are ignored by many retailers. We focus on customers across three key areas;

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

N Brown has expertise serving customers in each of these areas, and we believe that there are structural growth drivers within each one which mean we have a great growth opportunity playing to our existing propositional strengths. We are already number 1 for womenswear sizes 20 plus and we believe we can gain share in this growing market. We also have a long history of providing retail credit to customers under-served in the mainstream credit market, today, 80% of our customers are from C, D and E socio economic groups. We believe with our expertise in retail credit there is scope to expand our offering to a wider range of customers than today.

In addition, 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, gives us opportunity to grow in this market as well. Our strategic approach has evolved over the past eighteen months, and I consider 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 completed. The COVID-19 crisis has had an unprecedented impact on all businesses, and ours is no exception. Our focus this year had been 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.

Back in June, we launched the “accelerate phase” of our refreshed strategy to drive sustainable and profitable growth with higher free cash flow.

Five growth pillars have been developed to reflect the focus of the business and the external environment, these remain at the core of what we are doing:

1. First, distinct brands to attract broader range of customers
2. Second, improved product to drive customer frequency
3. Third, new Home offering for customers to shop more across categories
4. Fourth, enhanced digital experience to increase customer conversion
5. Fifth, flexible credit to help customers shop

These growth pillars are underpinned by our enablers;

- firstly, our people & culture,
- secondly, data
- and finally a sustainable cost base appropriate for a digital retailer.

Let me talk you through the progress of each of these pillars. Starting with our brands; we’re building clearer brand identities through a fresh creative approach for Autumn Winter 20 across our core brands. Along with our latest campaigns for the Autumn/Winter season, we continue to develop brand relevant partnerships to further engage with our customers. Examples of this include some exciting recent collaborations, including Simply Be and Coppafeel and Jacamo and Arms Length. We are also launching a new influencer strategy on Simply Be to support the reach and resonance of the brand with our target customers. We’ve talked to our ambition of five core digital brands with clear target customers. We made progress on our simplification agenda during the half, successfully migrating High and Mighty and House of Bath customers to Jacamo and Ambrose Wilson respectively. We continue to accelerate the use of social media; growing its use and generating new content ideas and platforms to inspire and engage our audiences. We now have 1.4m followers across our different social media platforms and we’ve seen revenue increase by 12% year on year.

Turning to product, we’ve made some solid foundational improvements. To build a clear handwriting that supports the overall brand proposition, we’ve increased the proportion of product designed in house by 8 percentage points from 57% to 65% and will continue to increase this. As demand from customers changed in response to the pandemic and lockdown restrictions, we’ve been able to pivot into key categories with greater customer demand – Leisure and Nightwear being good examples of this. We’ve spent time better defining our pricing architecture, the launch of Ralph Lauren and Hugo Boss on Jacamo being a good example of how we are using 3rd party brands to extend the “best” element of the range, with the two brands driving our best performance seen on premium brands ever.

We have a clearly defined roadmap to deliver an enhanced level of sustainability which we will talk about in more depth shortly. We're increasing the use of sustainable materials within our products, with 45% of our total denim mix using BCI cotton, and in April Jacamo launched its new sustainable denim range – a major step in our Menswear sustainability journey. Finally, we've continued to consolidate our supply base, which has reduced by 21% since last year, building stronger relationships with suppliers.

Our third pillar, Home, has been a real success story for N Brown. Launching our standalone Home Brand, Home Essentials on April 1st really enabled us to lean into increasing customer demand for Home products, particularly in key categories like home working and electrical. For the first half of the year, demand for home was +25.4% vs last year. We also supported the launch of the brand across Facebook and Instagram and have gained over 50,000 followers for our Home Essentials social accounts in that time. Digital is one of the areas where we would look to accelerate our investment, as a key driver to unlock faster growth. We've launched Bloomreach, which is an advanced merchandizing tool that helps give more personalised experiences to customers, across all of our core brands.

We are also investing in Application Programming Interfaces for social media. Social is an increasingly important growth driver for N Brown for all of our brands. We therefore want to invest to make sure we are using social as effectively as possible to reach and re-engage with customers. Our existing websites are built on legacy technology which is complex to maintain and update and not fit for a modern, digital retailer. We are developing a new front-end website, which will be faster and more configurable, delivering SEO and conversion benefits, as well as enabling brand relevant customer journeys and customer experience, strengthening the overall proposition. This is one of the core areas we have an opportunity to accelerate with further investment, which we will talk about later.

Our final pillar, credit, remains at the core of our business model. Innovation in the retail credit space means that consumers increasingly expect more choice and flexibility, through a more modern suite of credit products. Bluntly, we need to keep up to remain competitive and relevant. We are currently in a discovery phase, looking at the best way to deliver new credit products and supporting product and FS revenue, and the new platform will support this delivery. We've also increased our use of AI tools to support better credit decisions and customer outcomes as we continue to improve our lending proposition. We've also made good progress against our three key enablers, people & culture, data and a sustainable cost base. Our people have always been our biggest asset, and this year they have demonstrated commitment like no other in their flexibility and adaptability in response to the change in ways of working due to the pandemic and I'd like to take this opportunity to thank our colleagues for the tremendous effort they've made over the past eight months. We've made a number of senior hires into the organisation, including our new CFO Rachel Izzard and our CEO of Retail, Sarah Welsh, who both joined us in the first half of the year. We have also refreshed the product senior leadership team, as well as embedding a new Director of Data Science into the organisation.

Data has been an important tool in helping us to better understand our customer and build efficiencies into the business. The development of a predictive Customer Lifetime Value tool

landed in 2018, enhances profitability in the short term and helps convert customers to higher value over the long term, won the “Best Use of AI” at the Drapers Digital Awards. This is the second year running that we have won this award and shows how the use of data is embedded within the organisation. We have also significantly changed how we target our PPC spend to maximise return on investment, resulting in a 78% reduction of spend due to better targeting enabled by data initiatives. Finally, on delivering an appropriate cost base in line with that of a digital retailer, we’ve continued to reduce operating costs which are down 40.5% in the half - significantly more than the 17.6% decline in revenue.

Targeted initiatives across the entire cost base resulted in operating costs as a percentage of revenue significantly improving from 41.0% in H1 last year to 29.6% in this half. We also took the difficult decision to conduct a redundancy program across both our head office and logistics sites in order to ensure the Group has the right organisational structure for a post-COVID environment. As part of our ongoing commitment to sustainability, we recently rebranded our Corporate Social Responsibility charter to a new Environmental, Social and Governance initiative. This will allow us to better demonstrate how we:

- consider climate change as part of our strategy,
- engage colleagues and our wider stakeholder base,
- build trust and champion innovation
- and manage our supply chain.

We have created a new four-year sustainability plan that aligns with the values of the business. We want to be known for using sustainable packaging across our fashion brands and ultimately, we want to be one of the first major digital retailers to go fully sustainable on packaging. We aim to change all Simply Be and Jacamo branded despatch bags over to Green Polyethylene by the end of FY22. At the same time, we are increasing the sustainability of key product categories, having already launched a sustainable denim range on Jacamo. Our ambition is to have 60% of own brand product ranges sustainably sourced by mid FY24, which is double the 30% we are on target to deliver next year. Having provided an update on our strategy and the progress we’ve made within the half, I now want to talk about the opportunities presented by the equity raise to accelerate the delivery of our strategy.

We are pleased with the progress the business has made over the past eighteen months. With the restructure completed, we have entered the accelerate phase of our strategy. Whilst we believe that our legacy issues are largely behind us, our balance sheet continues to be constrained by the economic impact of these issues, holding back the pace of development of the business. We know there is a significant and growing market opportunity in the underserved customer segments we target, which has been accelerated by COVID-19 and the increased consumer shift online. At the same time, our product sales have improved from the significant impact we saw during lockdown, supported by the launch of our Home Essentials brand in April, and FS collections remain resilient. The equity raise will strengthen the balance sheet, enable targeted investment in strategy and create confidence in setting medium term targets.

So why now? Whilst we believe that N Brown is well positioned for a post COVID-19 world, we find ourselves constrained in our ability to trade and progress the business due to our large unsecured net debt and the CLBILS facility, which limits capital expenditure.

Without these brakes on the business, we will be in a position to both trade harder and accelerate the strategy, ultimately enhancing growth and shareholder returns. The equity raise is the next stage of our journey and is a one-time reset to allow the business to thrive. Rachel will now take you through some further financial detail in the next two slides.

Rachel Izzard: Thank you Steve. The first part of the net capital raise will be used to paydown our unsecured net debt, eliminating the current drawdown on our RCF and CLBILS, which is a combined total of c£77m. We fundamentally believe this business should have no unsecured debt, like most online retailers. In particular coming into peak period we know we will need to invest working capital in both inventory and in growing the customer loanbook which then generates strong long term returns. A net cash position gives us the ability to trade with strength into the opportunities. The raise net of fees and post clearing down our unsecured net debt generates £18m which will allow us to bring forward investment in a number of important initiatives to accelerate our strategic performance, which Steve will cover in a few slides time. I'll just close on a run through of the accompanying debt deals.

As part of the proposal, and to underpin the liquidity headroom going forward, we have an irrevocable commitment in place with our longstanding lenders to extend and right size of facilities. The clear-down of the RCF and the move to a net cash position enables CLBILS to be handed back, removing the associated restrictions. The extension to the securitisation sets us up well for future loanbook growth. I'll hand back to Steve.

Steve Johnson: Thank you Rachel. Let me talk you through what the raise means to our strategy. We have a limited set of key strategic projects already running within the business today but at a limited pace due to our constrained capital expenditure; £18m of the raise will be used to accelerate these projects and deliver value more quickly. Financial services is at the heart of our business model and we've already talked to the fact that we need to provide new, modern products to remain competitive within the retail credit market. Our current platform is built on a mainframe and though very stable, it is also inflexible, meaning we cannot build the credit proposition we need to on the existing platform. We are currently exploring opportunities on how to deliver a broad suite of credit products which will drive both retail and FS income. The new digital front-end website is a critical unlock for our strategy. Our current websites are built on legacy technology which is complex to maintain and update. Building a new website front end essentially creates a modern, clean platform from which we can build brand relevant customer journeys, deliver better SEO and gain conversion rate benefits. Finally, our growth plans are contingent on new customer acquisition in key target segments. We will use some of the funds to accelerate this, through brand building (for example, above the line activity across different channels) and more targeted acquisition through digital and social channels.

Subject to a successful raise, what does this mean for expectations from the Group? We will set some medium-term targets which reflect the pull forwards of strategy and our ambition,

with a 7% average product revenue growth target, and 14% medium term EBITDA margin target. More broadly, the Board intent is to produce net cash, and will consider of a new dividend policy at the full year results. I really do think that this raise is a truly transformative opportunity – enabling a reset to allow the business to thrive. There is a wealth of opportunity for N Brown, accelerated by COVID-19 and this raise will position the business to capitalise on this.

Whilst we remain mindful of an uncertain retail environment, particularly in light of the current lockdown, we are confident we can continue to build on the unique strength of the Groups brands and opportunities such as the structural shift into online retail. With our refreshed strategy in place, we will continue to transform our business, investing in our customer proposition and digital capabilities. The proposed capital raise will enable us to clear the unsecured debt, giving us the firepower to trade the business harder and accelerate delivery of our strategy, ultimately giving us the confidence to set the medium term targets that deliver significant 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:

Ladies and gentlemen, if you would like to ask a question, please press star followed by one on a telephone keypad now. If you change your mind, please press star followed by two. We now have a question from John Stevenson from Peel Hunt. John, you may ask your question.

John Stevenson:

Great, thanks. Good morning, everyone. I'm interested in what's happening to active customers over the period, wondering if you can comment on whether, you know, overall for all brands in aggregate or any sort of particular brand you want to highlight, but what's been happening to actives. And also on the cost of acquisition for those new customers? I mean, given the sort of marketing restructuring and the costs you've taken out, I'm guessing cost of acquisitions coming down, maybe if you could comment on that. And then just general trends you've sort of seen from customers and the sort of frequency and basket how people are behaving as we come into autumn and the second lockdown.

Steve Johnson:

Hi, John. Thank you for the questions. So look, I mean, in terms of the sort of customer file, we are moving to a different set of KPIs as we sort of move forward as a digital business. Well, I wouldn't sort of look at this any other way than we've seen sort of trading down in the first half. And ultimately, you know, the sort of customer file would probably reflect that. But within there, you've obviously got a lot of things going on. And I talked about closing the House of Bath business and closing High and Mighty as well. So there's a lot of transformational work going on. And that's why, in essence, we're sort of moving towards those types of metrics as opposed to sort of reporting on them at the moment. The cost per acquisition, Rachel, I don't know if you want to sort of pick that point up.

Rachel Izzard:

Yeah. So well, John before I start, as you can imagine, because we're launching the equity raise at the same time as the half year results, we're going to be incredibly careful and stick to information that's within the documents that we've sent out this morning, because, you know, under the panel, we just can't go beyond that. In terms of the cost per acquisition in the marketing efficiency, as I said, with the overlay, you know, this isn't just volume coming out. Obviously, at more than 60 percent reduction in marketing is a significant efficiency improvement as well. And we've done that with the use of the predictive AI tools to really understand the customer lifetime value. So we don't have a generic one target for cost per acquisition. It depends on the customer, depends on the brand, and it depends on the product that they're buying. So we're getting much more targeted acquisition that we can work with the marketing distribution teams, that we can go after the right customer base in the right way rather than very generic pay per click spend. So there isn't a one answer to that. It's a pretty layered answer, but we're really confident that we've got the right tools and processes in place and we can now kind of move forward with that. And as we're getting more efficient with our cost base, we can feed that back into a revised customer lifetime value models and revise guardrails into marketing, that we come, you know, into next season and into next year, really lifting our head up and kind of going after the acceleration phase.

We've got some really good tools to be able to drive that. But yeah, it was both volume and efficiency in the marketing. And it's not a single answer on the kind of customer acquisition cost because we're targeted in terms of where there's value for us.

Steve Johnson:

And in terms of trends, you know this reflects the sort of trends that we've seen for the market level. So a massive step back in clothing in March, given the H1 figures. And as we bought more in sort of casual and leisure wear, we saw a quite significant like for like growth in that area. And on home and gift, as we talked to, we've seen a 25 percent growth, which we're really pleased with. Customers shopping into toys, gaming, lots of homeware improvements, and we're sort of pleased with the home performance. So hopefully that gives you a bit of information. Those trends are continuing as per the COVID cycle that we find ourselves in.

John Stevenson:

Okay, thanks. I mean, just on the acquisition costs. I mean, if we're looking at a couple of years ago, could you maybe just comment on the sort of shift in, you know, overall sort of in a broad brush acquisition, cost improvement you're delivering?

Rachel Izzard:

So, as you said, this has been a long funding journey, so we started looking two years ago at customer lifetime value and the efficiency changes, we really started implementing this time last year. So October last year. So you can see we're going to start to annualise against it, so the half one improvement will be larger than the half two improvement because we kicked in October, November, this time last year, in particular, the changes in pay per click. And that's really where we're seeing the efficiency. We've also seen the efficiency in paper reductions. So you can see it later on in the slide that we've gone through -- level of pay per click reduction, level of paper reduction, an overall reduction in marketing spend. Now, the paper, we've got a lot more targeted in what we're doing. We're doing smaller drops rather than

the big kind of catalogues and doing a lot less of it now we're 92 percent digital. But it's not a single point answer, I'm afraid, John, it's a multilayered answer, but it's --

John Stevenson:

It's a %...

Rachel Izzard:

So, you know, whilst we've been working on it for a couple of years, the step change in the cost space you'll see from October, November last year ends up flowing through into this year.

Steve Johnson:

John, I think perhaps a different way - I know it's a high level answer, but there's three areas highlighted on slide 25 of the sustainable cost base. Having a sustainable cost base for a digital retailer is absolutely part of our enablers. The three areas; paper reduction minus 65, PPC reduction minus 78, broadcast reduction minus 89. The first two, paper reduction and PPC are part of the strategic work; the broadcast reduction was effectively part of protecting the balance sheet. And we have recently started advertising again on Simply Be that went above the line about two weeks ago. So I think if you look at that slide and the first two are strategic, the last one was more about the balance sheet and we will change that going forward as we look to grow.

John Stevenson:

Okay, brilliant. No, thanks for that Steve. Thanks, Rachel.

Rachel Izzard:

Thanks, John.

Operator:

We now have a question from Matthew McEachran from N+1 Singer. Matthew, please ask a question.

Matthew, McEachran:

Morning, guys. A few questions from me, if that's possible. Just on the on the credit side in terms of credit scoring and also in terms of noncredit rollers, could you give us a sense as to what the trends were at the back end of the half and how your kind of engineering the business coming into this peak period?

Steve Johnson:

Sorry, Matthew, can you just expand a little bit on the question, just to make sure that I can answer it in the best possible way?

Rachel Izzard:

Essentially credit customer behaviour trends through the half?

Matthew, McEachran:

So, I mean, you talked a lot about broadening the kind of payment options and, you know, you're kind of in a testing phase for different credit options. So I guess the first bit is the

noncredit, you know, rollers. What's been the trend in terms of credit rollers versus noncredit in the back end of the half? And then separate to that is have you been turning the screws on the credit scoring given the increased risk and the increased provision for bad debt?

Steve Johnson:

I think the language that we're sort of using is reflective of our previous, sort of, updates, Matthew. So I understand why you're asking the question and I'll probably go back to the sort of implementation of the customer lifetime value models. So this is down to where we need to give better sort of metrics -- it's actually a question that came out the first one really as well. We've implemented customer lifetime value metrics. So all we are focused on in this business is investing a pound of marketing to get a value that is the most maximum value that we hold. And we're not actually that sort of obsessed about whether it is a roller, a credit customer, a cash customer anymore. That has changed as part of the sort of restructuring work. Many cash customers can also contribute at the same level as credit customers. We know the credit system is more profitable, clearly, but ultimately, finding loyal cash customers can really, really help. So actually, internally now are using different language. It's all about customer lifetime value. It's all about a median term return to the organisation, rather than either focusing on cash, focusing on credit, focusing on rollers. So, that's down to us, we haven't been clear on that yet. But again, as we sort of step forward as a digital retailer, we will see different metrics from the organisation that would bring that to fruition. In terms of actually, the response rates, to go back to John's question earlier on, we have seen a little bit of a tick up in the response rates, actually, and I would like to see that because ultimately, by focusing on customer lifetime value, you should be collecting more loyal customers who are going to continue to trade with you. So, there are some very minor green shoots at this point in time, but we're very embryonic in this approach. Hence why we're not sharing it; we're still learning through this period. And we will come onto that.

In terms of the credit performance, the sort of COVID-related part of the question, we had some customers ask for a COVID response; it is very minor in the scheme of things. We absolutely follow the guidance. We worked with the regulators to make sure that we were doing what was needed, like most businesses would have done. And we made it very clear to customers that they could ask for a deferral if they want to. And actually, on the back of sort of recent news, we will be doing that again within the sort of rules that sort of we've been guided towards. And we're very, very happy to support customers achieve the right outcome for them through this very difficult period. In terms of our actual credit performance, in terms of the sort of collections, and in terms of the underlying performance, it is you know, it is parity with last year as an underlying performance, perhaps a little bit better. So, our customers have not shown any distress in the payments.

We have, however, taken a very sizable IFRS 9 provision based on the sort of macro uncertainty and to Rachel's introduction. Had it not been for that IFRS 9 provision, the underlying profitability would have actually been better than the first half of this year than it would have been last year. So, I think it's probably worth me passing over to Rachel to articulate, in essence, the component parts of that provision.

Rachel Izzard:

Yeah, so a couple of things with that, as well with your response to your question, so to the, you know, are we focusing just on credit, if you look at the underlying profit stepping forward year on year, that means, you know, we've moved forward with our retail profitability, as well as our financial services loan book staying stable. So, this means we're happy to kind of sell a dress on cash or sell a dress on credit because we've restructured our cost-base such that we're profitable for the retail element of the business, as well as profitable for the financial services element of the business. You can see that in, despite the kind of pandemic, the underlying profitability stepping forward. So, whilst our credit penetration still is staying just above 80 percent and is staying stable, it's not a little bit better because we've obviously got a good credit offering, right for the market at the moment. And, you know, we're happy to generate sales as long as we focus on the customer lifetime value. And it seems that we understand that across all segments of the business. So, that's a real change for N Brown and a real step forward that we're profitable across all of our trading.

Matthew McEachran:

Yeah, and that's a pretty helpful answer. Thank you. I mean, kind of tied into the equity raise. Has the disruption across supply chains given you an advantage in that size range that you offer across your brands? Are you, you know, much more available in the outer boundaries of the size ranges compared to what, you know, what competitors are in stock in at the moment?

Steve Johnson:

Well, as part of our stock file, Matthew, in answering that one, as part of the initial pandemic, we went into it with effectively a typical order for spring/summer clothing and footwear, which we know was sort of impacted through the pandemic. And, of course, we were protecting the balance sheet at that particular point in time. So, we did cancel out of many orders that we'd made at the time, and we worked with our suppliers in the best possible way to ensure that we continue to have a relationship with them and worked with them through that period.

And as we sort of got through there and we got the sort of initial refinancing, then we did start buying back into our stock file, and it's a bit more sort of COVID-related. So, in essence, it's down to where it's leisurewear and obviously on the home and gift side. So, we've been able to do that. In relation to size, well, we've worked with our supply base for quite some time. Over the last 18 months to two years, we've rationalised it down from something like 2,100 suppliers to something like 900 suppliers, 930, I think. And we work with them very specifically in relation to the designs and the cutting cycles that we want, which is basically being informed by all of our experience that we've built up over the years in making sure that we have fashion that fits well for the larger sizes. This is our area of expertise that we have talked about before. And actually, what we've been able to do is access all of the suppliers, so we've not had any challenge accessing those suppliers; there may have been a week or two delay as we've got things through the sort of pipeline, but as we started reordering into those and into those files, our file is building up very nicely.

Rachel Izzard:

And you can see that in a specific example with, say, Jacamo partnering with Hugo Boss as well, not just our own supply, but with the partner supply. We're there in the larger sizes and

that's done incredibly well with Jacamo in terms of bringing that brand through and offering the broader size range.

Matthew McEachran:

And the consolidation, is that giving you some firepower in terms of promotions and this -- you talked about promotions continuing; is that consolidation giving you some firepower to fund promotions?

Rachel Izzard:

So, do you mean --

Matthew McEachran:

In terms of your intake margin.

Rachel Izzard:

It is, I'd say, more in terms of getting back on the front foot into the second half of the year, you know, having self-sold and starting to deliver the balance sheet ourselves and then with the equity raise as well, which we hope will be successful through the AGM later this month, that gives us real firepower into the moving to a net cash position, where we can start to kind of do some more of the investments, whether it's above the line marketing or more inventory, working capital to get back onto the front foot and really accelerate through into the next season.

Matthew McEachran:

Yeah, okay, thanks very much.

Rachel Izzard:

Thanks, Matthew.

Operator:

As a reminder, ladies and gentlemen, to ask a question, please press star followed by one on your telephone keypad. We no further questions and this concludes today's call. Thank you for joining, ladies and gentlemen; you may now disconnect your phone.

Rachel Izzard:

Thank you, everybody. Appreciate the time.

[end of transcript]