

N Brown H1 FY24 Results Presentation Transcript 12 October 2023

Steve Johnson – *N Brown – Chief Executive Officer:*

Good morning everybody and welcome to N Brown's interim results for the 26 weeks ended 2nd September 2023.

I am joined by Dominic Appleton, our CFO.

Let's turn to the agenda for today.

First, I'll give you an update on our highlights so far this year. Then, I will then hand over to Dominic who will take you through the financial performance of the first half and the outlook and guidance for the full year. I will then return to talk in a little more detail about our KPIs and our strategic progress. After that, we'll open up for Q&A.

We're pleased to be reporting first half Adjusted EBITDA in line with the Board's expectations, which leaves us on track for the full year Board and market expectations.

We're doing this whilst making further strategic progress against our pillars. Following on from the launch of our new trading website to Simply Be customers last year, we have now successfully launched on Jacamo, which is aligned to one of our transformational priorities. We have a clear set of priorities in train for the year ahead, including the new website on the third of our strategic brands, JD Williams.

As we anticipated, macro-economic pressures have continued into FY24, with the softer product revenue trends we saw from the second half of last year continuing. We retain our view that the market for discretionary products will remain under pressure in FY24, but we have seen a better product revenue trend in Q2 and a further improvement at the start of Q3.

We have kept our focus on the areas which are directly under the business' control, which has allowed us to reduce absolute costs in the half despite £7m of inflationary headwinds, and reduce stock by £20m over last H1's position.

We continue to have a strong balance sheet, with total accessible liquidity of over £130m at the end of the half, which provides a solid base for the continued investment in our priorities.

I'll now hand over to Dominic to talk you through the financial results.

Dominic Appleton – *N Brown – Chief Financial Officer:*

Thank you, Steve.

Let me start with giving you a summary of the Group's financial performance in the half.

Overall, the continuing challenging macro-economic conditions saw Group Revenue down circa £35m, including softer product revenue and lower financial services income, with the latter reflecting the smaller customer debtor book from the start of the year and the softer product revenue.

Adjusted Gross Profit Margin has increased by 40 basis points driven by progression in the retail gross margin. I'll talk in more detail about this later.

Our adjusted operating costs to sales ratio has increased in the half driven by the anticipated inflationary impact flowing through from H2 of last year, and the impact from lower operational leverage. Against last year, we experienced headwinds on this ratio of just over 2ppts from the inflation element and just over 2ppts from the lower operational leverage. These have been partially offset through management initiatives, with absolute costs c. £5m lower.

The lower gross profit, driven by the lower product volumes, led to an adjusted EBITDA of £17.5m, c. £10m lower than half one in the prior year, but in line with Board expectations and leaving us on track for full year Board and market expectations.

Below EBITDA, we saw a £7m reduction in depreciation & amortisation following last year's impairment of intangible assets. Interest costs were £1m higher reflecting higher utilisation of the securitisation facility, giving an adjusted profit before tax of £0.1m, down £4m on the prior year.

Unsecured net cash was up c. £2m on prior year, at £49m, and we have generated cash of around £14m in the half, after continuing to invest in the transformation of the business. The balance sheet continues to be strong, with total accessible liquidity of over £133m at the end of the half.

Finally, Adjusted EPS of 0.15p reflects the profit performance during the half.

You'll see from this slide that the majority of the EBITDA reduction, has come from lower revenues across product and financial services, with the EBITDA being in line with Board expectations.

The product revenue has been partially offset by a better margin rate, which includes normalised freight rates, and a continuation of good cost control, with costs reducing by c.£5m as we have managed volume reductions through the cost base, and despite inflationary impacts of c. £7m.

The context of the market and weaker UK consumer confidence continues to be important. Over the half, according to IMRG, the online pureplay market reduced by 9%.

Consistent with our expectations for the first half of FY24 to be particularly challenging, our H1 product revenue performance has continued from H2 of last year, as can be seen on the graph. Within this, our Q2 performance has improved by around 150 basis points over the Q1 decline.

Our strategic brands performed ahead of the pureplay market, contracting by 7.4%, an improvement against H2 of last year. Alongside this we've also made further strategic progress, focussed on our three strategic brands, as Steve will talk to later.

We've seen a managed decline in heritage brands product revenue, with this portfolio of brands being managed for value rather than growth.

A lower opening debtor book position and lower product revenue during the half saw FS revenue reduce 9%.

So, partially mitigating the lower volumes, adjusted gross profit margin has improved, up 40 basis points versus last year. The progression is part of the strategic change in the business where we are focused on delivering margin and profitability improvements, rather than volume growth at any cost.

Looking at what has driven that:

Firstly, an adverse impact from trading of c. 50 basis points from a combination of:

- A higher mix of branded product, which has a lower margin than our own brand product;
- A softer womenswear performance reflecting the market, which has a higher margin than the average category margin.
- And a measured investment in margin along with lower full price mix. This has been required in a promotional environment and to support additional stock clearance activity, which is seen in our lower and cleaner stock holding position at the end of the half.

Secondly, more than offsetting this, we've seen the flow through of lower freight rates, improving gross margin by c. 100 basis points, following the drag which we saw from freight rates in prior year.

Thirdly, we have claimed back a higher amount of VAT Bad Debt Relief on write offs in Financial Services in the first half, largely reflective of the timing of debt sales which have taken place. We credit that to the Product Gross Margin, as we can only reclaim it due to the benefit of being a combined retail and credit provider. This improved Gross Margin by c. 50 basis points.

Finally, there was a c. 50 basis point adverse impact from FS margin, which largely reflects timing impacts between provisioning and write offs following the change in payment arrangement strategy which we flagged in FY23, with a stable level of PAs in H1 24 annualising against payment arrangements building in H1 23.

Our Adjusted EBITDA margin was lower in the half and not where we expect the second half of the year to perform, as I'll talk about in our guidance later.

As I just talked to, adjusted gross margin improved by 40 basis points in H1, flowing through to a benefit on EBITDA margin.

As I showed on the EBITDA bridge earlier, we have reduced our Adjusted Operating Costs by c. £5m against last year, despite an inflationary headwind of £7m. This reflects flexing within the variable components of our model with the lower volumes, as well as management actions.

As a result of operational gearing, with lower revenue impacting the cost ratio for our fixed costs, particularly in admin & payroll, the Adjusted Operating Costs ratio has increased by 2.9ppts, driving the EBITDA margin rate.

Looking at the individual areas, Warehouse and Fulfilment and Marketing and Production have each flexed broadly in line with the lower revenues, with approximately £2m of inflationary impact on each line being offset by higher average order values and management actions.

Admin and Payroll has increased by around £2m over the prior year, after inflationary impacts of £3m, and £1m of additional expenditure as part of the transformational programme. Combined with the operational deleverage, this is the area which has seen pressure on the cost ratio. The H1 ratio of 21% of revenue is a key opportunity for us to drive improvement against going forward.

We have, and continue to take, actions to reduce the cost ratio in H2 over H1; we expect to see more operational leverage due to H2 seasonality; and we also expect to see some easing as we annualise against high inflationary impacts in H2 of prior year.

We have incurred restructuring costs in the half, reflecting management's focus on driving further cost efficiency and ensuring that the cost base is right-sized for our volumes. The majority of the charge, reflects the rationalisation of warehousing facilities following a review of capacity, utilisation and the operational cost base. It also includes further redundancy charges following the restructuring programme which was initiated at the end of FY23.

This slide shows how adjusted EBITDA of £17.5m has converted to net cash generation of around £17m, before adjusting items, which is pleasing given the difficult trading conditions.

Starting on the left at the top, we have seen an inflow of around £14m driven by £12m lower inventory in the half. On a 12 month basis, against H1 of last year, this reflects a reduction in inventory of around £20m or 20%, through moderating intake and clearing of older items.

Non-operational cash outflows of around £16m include capital investment of £9m as part of our ongoing transformation, and interest costs.

This resulted in the £17m of net cash generation, before adjusting items of c. £3m . The adjusting items relate to cash outflows for restructuring costs as we right-size the cost base, with around £14m of cash generated after these outflows.

I'll now walk through what that practically means in terms of our robust cash and funding positions. The three key points to highlight are:

First, we had unsecured net cash of £49.1m at the end of the half.

Last year, we had an unsecured net cash position of £47.2m and £45.5m voluntarily underdrawn on the securitisation facility which was accessible. Combined, this reflected a figure of around £93m.

The cash reduction in the last 12 months is driven by the one-off Allianz settlement, with corporate financing remaining in a strong net cash position.

The 2nd tranche of our funding is the financial services securitisation facility. The drawn funding of £308m is well covered by customer debtor balances, with our gross debtor book being £529m.

Taking the strong corporate net cash position together with the well-balanced FS securitisation, we have net debt of £258m which has increased over last year due to the Allianz settlement just mentioned, partially offset by lower borrowings and the cash we have generated.

As previously announced, post year end we completed the refinancing on the Revolving Credit Facility of £75m and overdraft facility of £12.5m, with both maturities now fully committed to December 2026.

So, in summary, our balance sheet remains strong including the level of cash and accessible liquidity which is available to us, with total accessible liquidity in excess of £130m.

Now turning to full year outlook and guidance. We continue to expect the macro-economic challenges of a high inflationary environment and low consumer confidence to persist throughout FY24

Building on our H1 adjusted EBITDA performance, we expect full year adjusted EBITDA to be in line with market expectations.

We have slightly moderated our revenue expectations for the full year but expect this to be offset by positive management action, resulting in marginally higher H2 EBITDA margin expectations than achieved in full year FY23.

The stronger adjusted EBITDA margin rate in H2 reflects benefits from:

1. cost actions undertaken in H1 and also planned for H2;
2. better operational leverage through normal seasonality leading to greater weighting of sales towards H2;
3. year-on-year retail margin rate improvements, with H2 24 retail gross margin similar to that achieved in H1 24; and finally
4. improvement in FS margin rate driven by initiatives

As seen in H1, the previous level of depreciation and amortisation reduces following the £53m impairment of non-financial assets in FY23, with a full year reduction of around £15m against FY23.

The business continues to be well positioned to self-fund strategic change, with full year investment continuing at a similar level to that seen in FY23. At the end of FY24, we expect adjusted net debt to be lower than FY23's closing position. We remain confident in our strategic direction and our digital transformation as we focus on driving sustainable profitable growth, and although early in the period, we are also pleased to have seen an improvement in the trading trajectory at the start of Quarter 3.

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

Steve Johnson – N Brown – Chief Executive Officer:

Thank you, Dominic. Before I talk about the progress against the strategic pillars, I wanted to reiterate the transformational priorities which we committed to for FY24 and beyond. These are focus areas which we believe will deliver the biggest benefits, and we have already seen progress against these in the half.

Firstly, our FS offer will be rebranded, with the platform built and deployed to customers. Building our FS platform enables us to offer more modern credit products to our customers, allowing them greater flexibility and choice in the way they pay.

Secondly, all of our strategic brands will have a new customer facing mobile-first website experience.

Thirdly, we will continue to embed a data culture to empower our colleagues to meaningfully engage with data to identify and leverage analytical opportunities which will allow us to make better-informed decisions to enrich the customer experience.

Fourthly, a New Product Information Management system will be live, providing a single place to collect, manage and enrich product data. This will ensure our customers have better product information to inform their purchases, which we expect will lead to far fewer returns for our colleagues.

Finally, by the end of calendar year 2024 we will have moved to an agile way of working. Agile will transform the focus and execution of the work our colleagues will undertake, which will deliver value to our customers much faster.

I'll now talk about some of the strategic highlights from the first half.

We have continued to make good progress across each of our strategic pillars in the year, and are executing this on a self-funded basis.

Within Build a differentiated brand portfolio, we have secured a number of new partnerships, each highly relevant to the positioning of our three strategic brands.

During September, JD Williams partnered with ITV and Global as headline sponsor of My Mum Your Dad, a prime-time ITV show. This was brought to life by brand ambassador Davina McCall, with the goal of driving greater brand awareness as we lead up to peak trading.

Jacamo's partnership with LADbible has paved the way for connection with where Jacamo's customers spend their time. This approach allows us to engage with our customers, through social media outlets, aligning with their passion points, and increasing the ability of the brand to drive more loyalty and retention.

Simply Be embarked on a journey of empowerment, focusing on fashionable fit with the introduction of the 'Serious about Shape' campaign, with a core group of diverse affiliates to demonstrate 'Every body deserves fashion that fits'. This message was further reaffirmed by the launch of a new podcast hosted by the influential Fleur East. Our customers are more engaged and feel emotionally connected to our brand position, which is displayed through our Excellent rating on Trustpilot.

Now, moving onto elevate the fashion and fintech proposition.

The launch of Simply Be on Sainsbury's online platform during the first half and selected stores in early September, marked a significant milestone in the selling of our ranges via partnerships and other retailers, providing enhanced exposure to a variety of different customer segments.

Reflecting further progress within our own brand proposition, Anthology, a JD Williams own premium line, designed with an elevated approach to dressing that offers versatile quality fabrics, was launched in early September.

In line with one of our transformational priorities, our new FS platform has progressed as expected through the half, proceeding through the initial discovery phases.

Now onto Transform the customer experience. As mentioned earlier, we are really pleased with the successful launch of the new website for Jacamo, which was executed in under a third of the time taken to deliver the first brand to launch, Simply Be. We look forward to replicating this success with JD Williams' new website launch later this year.

A significant milestone was reached with the validation of our Product Information Management solution, another of our transformational priorities. We remain on track for the integration of our first brand.

Within Win with our target customer, to engage our target customer in an ever-challenging consumer landscape, we continue to foster close collaboration with strategic partners. By striking a balance between securing visibility to build our brand awareness, and facilitating conversion in driving purchase, we have continued to integrate the capabilities of AI and Machine Learning into our marketing campaigns. By leveraging the data processing proficiency of AI systems, we ensure that campaigns are targeted to customers with a high probability of purchase, further streamlining our customer proposition.

We continue to optimise our Customer Relationship Management levers, with an emphasis on acknowledging and rewarding our valued customers for their repeat purchases. With a focus on customer engagement, we have seen an increase in the number of customers opting into our loyalty programmes.

In Establish data as an asset to win, we have leveraged data driven insights in Customer Lifetime Value models' to shape our prediction models for customer behaviour, ensuring a benefit to them through a more personalised marketing approach and consistent experience. We have used this insight to send targeted onsite messaging to customers who might benefit from using our credit proposition.

We have expanded the application of PriceTagger, our in-house tool which helps us optimally promote product using pricing elasticity. PriceTagger has allowed for AI driven pricing, by measuring how sensitive the demand and supply of products are to price changes. We continue to advance our prediction models to cater for seasonal trends in customer behaviour, and the impact this has on rate of sale, ultimately increasing our agility of price within the market space.

We continue to provide a range of digital customer metrics to help track the progress of our business.

Consistent with the broader market, we have seen the impact of macro-economic challenges and customer behaviour, including a rebalancing of spend between offline and online channels, and which can be seen in some of our KPIs. However, alongside this, we are reporting some mitigation through average item value growth, along with pleasing progress in our Net Promoter Score and lower arrears.

I am confident that the combination of delivering against our transformational priorities, whilst seeking incremental improvements in all areas of the business, will move us towards unlocking progress in more of our KPIs alongside an improvement in the macro-economic environment. Today I'll talk through four of the KPIs.

Firstly, is the number of orders, which is 18% lower than the prior year. This is the result of a combination of lower website sessions and conversion, reflecting the challenging pureplay market and the unseasonable weather conditions experienced.

Second, average item value rose by 6%. The impact on consumer demand of a more subdued backdrop has been partially mitigated through customers buying into more premium ranges, and measured price increases.

Thirdly, our arrears rates are down 0.1%pts against last year on a comparable basis, reflecting a resilient customer base despite cost of living pressures.

And fourthly, we have seen good progress in our net promoter score which is up 3pts against H1 last year and 5pts against full year FY23. We're pleased with the traction in a number of operational areas, including extension of cut-off for next day delivery to 11pm.

At N Brown we are fully committed to embedding sustainability throughout the organisation, our product ranges and our processes and continue to progress with our ESG strategy, SUSTAIN.

Developments in the half include responsibly sourced product now making up 44% of our own-brand clothing and home textile ranges as we target 100% by 2030 in line with our Textiles 2030 commitment.

Alongside mapping our Tier 2 supply base we have implemented our Supplier Sustainability Questionnaire for the first time to enable further understanding of how our suppliers are addressing the social and environmental impacts associated with their business and their industry.

In continuing our commitment to increasing socioeconomic diversity and making a difference in the communities we serve, we engaged six colleagues with The Prince's Trust Mosaic Mentoring programme. The programme aims to help students build employability skills, raise their aspirations, and get excited about their futures. The colleagues mentored groups of Year 10 students in lower socioeconomic areas in Greater Manchester.

And, as a part of our Diversity, Equity, Inclusion & Belonging policy, "EMBRACE", we proudly sponsored Manchester Pride in August, with colleagues taking part in the Pride parade.

Despite the continued macro-economic challenges leading to softer trading and inflationary pressures, H1 adjusted EBITDA performance was in line with the Board's expectations, supported by disciplined management of areas within the business' direct control. This leaves us on track for full year expectations.

We have made further progress in the half and continue to self-fund our strategic change. The clear set of priorities we have in train for the year ahead will set the business up for 2024 peak trading.

We expect the macro-economic challenges of a high inflationary environment and low consumer confidence to persist through FY24. However, good work in our teams, including more efficient stock management, has helped generate cash and further improve our liquidity position in the half, providing a solid base for the continued investment in our priorities.

We'll now 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. Thank you.

Conference Call Operator

Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. And please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. We will pause for just a moment to allow you to signal. And our first question comes from Clive Black from Shore Capital Markets. Please go ahead.

Clive Black – Shore Capital Markets

Good morning, gentlemen. Thank you for the presentation and, indeed, for navigating the tricky waters. I've got a few, but I'll just ask two to start with and give us a chance and if necessary, come back. The first one was just a follow up for clarity purposes on the cleanliness of the stock position at the end of H1, but perhaps more significantly, how you see working capital going through the remainder of the year, the size of your buy-in and how confident you'll be in a sound working capital position come the year end.

And then secondly, just following up and Steve, on your strategic overview. I mean, we understand the magnitude of the change that you're trying to engineer in FS, but maybe just for purposes of clarity, give us a bit more colour on what it actually means for shoppers. What will that FS transformation mean for your customer base, please? Thank you.

Steve Johnson – N Brown – Chief Executive Officer

Thank you, Clive. Thanks for the questions. I'll cover the strategic change one first, I think, and then I'll hand over to Dominic, who is probably best to talk about how the working capital flows through the second half. But fundamentally, the financial services platform that we sort of currently operate with is hooked into a mainframe and operates on a billing cycle that is effectively a hang up from the old catalogue days.

So the first thing that we want to sort of do is make sure that the new platform is adaptable technology rather than old mainframe. And also it presents customers with an experience that reflects the sort of modern financial services experience as you do with any financial services account. So moving away from this thing that caused -- that served our customers really well for a long time into something which is a more sort of modern experience that customers would expect. Following on from that, because it's built on new technology, we expect very quickly to be able to sort of build products that have our customers in mind. So there are many different types of financial services products out there. We won't go through the detail of them at this stage. But, you know, from my perspective, a number of different options for customers to pay in lots of different ways and really creates something which enables us to use this as a way of sort of creating an experience for a customer, which is seamless.

And then if we build the data in a way where we understand it, I've always sort of maintained that in a digital retailer you can prioritize the customer more than you can for somebody walking into a store. So anybody walking into our digital shop, we should understand them. We should understand whether they are a size 18 or a size 16. We should understand that they're a big F on fashion or a small F on fashion. We should understand whether they like conservative colours or whether they don't look conservative colours. And we should create a seamless experience for that customer when they hit the site with some of our brilliant product.

And then we should be able to then understand how they like to pay. Do they like to pay on a debit card, do they like to pay by Apple pay, do they like pay in three, do they like to pay over a number of different ways. And that seamless experience that we create, both on the product recommendations and on the financial services recommendations, as in checkouts experience, should improve the customer experience massively. And I would anticipate that the launch of those new products with that level of data capability will enable this business to step forward and start to grow. And I think that's the sort of key thing that we're aiming for.

But it is, you know, we're trying to do something big here. It's not we're launching a new sort of platform; we're doing something big and we have high ambitions. And over the next couple of years, for sure, I'd like to see those play through.

So if that answers that question, Clive, I will now pass over to Dominic to cover the sort of working capital trends over the sort of second half of the year.

Clive Black – *Shore Capital Markets*

Thank you.

Dominic Appleton – *N Brown – Chief Financial Officer*

Thanks, Clive, for your question. Absolutely. Our stock is cleaner year on year. It's 20 percent lower, which is circa about £20 million lower year on year. We're very pleased with that. How have we done it? We've done it because we've really focused on creating flexibility in our stock to buy in to newness for our customers, by moderating intake and clearing through our old stock. We will continue that process in the second half of the year. So I expect to see continuing benefits in our working capital through managing stock in that way.

Clive Black – *Shore Capital Markets*

Good to know. Thank you. Thank you very much for those answers. Appreciate it.

Steve Johnson – *N Brown – Chief Executive Officer*

Thanks, Clive.

Conference Call Operator

We'll now move to our next question from the line of Eleonora Dani from Shore Capital. Please go ahead.

Eleonora Dani – *Shore Capital*

Yes. Good morning, team. Can you hear me?

Steve Johnson – *N Brown – Chief Executive Officer*

Yes, we can hear you. Nice to speak to you.

Eleonora Dani – *Shore Capital*

Three questions from me, please. So the first one on the net promoter score improvement? Perhaps it would be worth going through the key drivers of that. The second one on the Sainsbury's collaboration. How should we think about the scale of the sales uplift going forward? And lastly, any indication of consumers taking up more credit in Q3 given the current macro environment? Thank you.

Steve Johnson – *N Brown – Chief Executive Officer*

Okay, so I missed the second one. Can you just sort of ask me that second question again?

Eleonora Dani – *Shore Capital*

Yes. Just in terms of the Sainsbury's collaboration, how should we think about the scale of the sales uplift?

Steve Johnson – *N Brown – Chief Executive Officer*

Yes. Okay, thank you.

Eleonora Dani – *Shore Capital*

And from that going forward?

Steve Johnson – *N Brown – Chief Executive Officer*

Yeah. Sure. So I'll probably cover all three of those, actually. So thanks for the questions. Net promoter score has gone up and it continues to go up and we're very pleased about that. But it is a combination of a number of factors. We're certainly seeing some improvement on the delivery performance. And in fact, our measure of sort of on time in full has gone up versus this time last year. So the fact that we're sort of getting parcels to customers as they expect them is helping a lot. But actually a number of key drivers that sit underneath that are the improvement in products and certainly some of the recent product ranges that we've launched. Anthology under J.D. Williams we're really, really proud about. We think it's really good quality. Our customers are buying into it and they're also buying into some of our brands as well. So TALA is a recent launch that we've sort of launched and that's going very well as well.

So product is resonating well with customers. Delivery is improving year on year and the experience that we're creating for our customers and our strategic brands is better. And that would be the third point, given we've launched our new website on both Simply Be and Jacamo at this stage -- JD's to go next year. So we do know that the website is faster, around 20 percent faster than the old site from an experience perspective. And we also know that we're about sort of twice where we were on the Google lightbox scores. So from our perspective, it's performing better as a digital platform and customers like it. It's allowing them to go through the journey in a much faster way. And that's why we're seeing improvements in NPS. So those three factors are driving that NPS score improvement.

In relation to Sainsbury's and scale, I don't know yet. We're very excited about it. We think Sainsbury's is a brilliant business. I've personally worked in that business a number of years ago and I think it is a genuinely customer-centric business and I am quite excited about the launch, particularly with Simply

Be, it's already gone live on their website and the early signs are very good. That's what I would say to that.

We're only live in a few stores at this stage and that rollout is continuing. But I don't know if I can sort of answer the question on scale until we sort of get a bit further down. So maybe that's a question we come back to either at the sort of Q3 statement or at the year end. But what I will say is that we're pleased with the launch, we're pleased with the support we're getting from Sainsbury's, and we have high hopes for it. We're excited about that partnership.

And on the final point, is there any more take up on consumer credit? Well, just sort of, you know, there's a lot of things that we do in the business in relation to our sort of focus around responsible lending, particularly with consumer duty, which we've just made lots of changes on the back of. And I think from our perspective, we feel pretty good about our financial services business. We've done a lot of work over a number of years to make sure it's in good shape for this type of regulation and actually at an underlying level -- and it is of an underlying level, once you take some anomalies out -- the arrears performance is actually better than it was this time last year. So our customers are performing well in the context of a cost-of-living crisis, and that's down to the products that we offer, it's down to the way that we sort of help customers and particularly vulnerable customers. And I'm proud of the work the team do on that. So first point I want to make on it is that actually we've already got a lot of existing credit customers and we're not seeing particularly any change other than a favourable change in the light of cost-of-living crisis, which is good.

In relation to your direct question around take-up and whether we're seeing any more take-up at this stage, actually, we're not. I would say there's nothing significant that I would point to. I would say it's sort of business as usual for us as we are at the moment, and we're not seeing a sort of influx of additional credit applications, principally, to your point around sort of cost-of-living crisis. So we're very happy with the credit performance at the moment.

So hopefully that answers your questions, Eleonora, but the key thing is NPS; it's delivery, it's product, and website experience. On the second point on Sainsbury's, it's too early to say what the scale size of it is, but I'm very excited by the partnership. I think Sainsbury is a brilliant business and I'm looking forward to seeing how that develops. On the consumer credit side, we're very happy with the way it's managed and we're not seeing an influx of credit applications. So hopefully that covers the three points.

Eleonora Dani – *Shore Capital*

That's very helpful. Thank you.

Conference Call Operator

Thank you. And as a reminder to ask a question, please signal by pressing star one. We will pause for just a moment to allow you to signal. And we have a follow up question from Clive Black for Shore Capital Markets. Please go ahead.

Clive Black – *Shore Capital Markets*

Just one, guys, if it's okay. I just wondered if, again, if you could provide a little bit colour on how you're seeing the returns activity at the moment. Dominic touched on it in his overview, but where do you

see returns at the end of H1? How do you see that progressing? And indeed, even an industry level around things like charging and its impact on returns. Be useful to know your thoughts. Thank you.

Steve Johnson – *N Brown – Chief Executive Officer*

Yeah, well, I think, you know, I can give you N Brown's perspective, which is at the moment we've got no plans to sort of increase the charges in relation to any sort of returns we see as part of a service that we offer our customers and actually for our customers, given the proposition that we serve our customers do sort of order on a credit account, they've got plenty of time to sort of go through that process. And we have the obvious benefits of the sort of double margins that sort of exist from the financial services and the product. So, you know, this business is in a strong enough place not to sort of have any immediate plans there. Over time, we can obviously come back to that point, but there's no immediate plans to make any changes there. And, you know, I think our customer proposition is incredibly strong.

I mean, overall and returns, we're not seeing anything that is significant. And in fact, you know, we actually have a reasonably low returns rate, which I put down actually to the investment in technology that we have in this business. We use a lot of capability when effectively building our physical products. We have body scanners going up and down the country, taking sizes and shapes of all of our customer sizes. We build that into how our customers' product is fit. And we, of course, focus on the fact that we are a size and fit specialist. So the net result of that is that actually our returns rate is probably lower than the market rate and we're very pleased that our customers like our proposition. So I suppose the key answer is, Clive, we're not seeing any discernible difference in returns.

Clive Black – *Shore Capital Markets*

[inaudible] work. Thanks very much, Steve.

Steve Johnson – *N Brown – Chief Executive Officer*

Thanks for the question.

Conference Call Operator

Thank you. And as a final reminder to ask a question, please signal by pressing star one now. We'll pause for just a moment to allow you to signal. It appears there are no -- there are currently no further questions in the queue. With this, I'd like to hand the call back over to Steve Johnson for any additional or closing remarks. Over to you, sir.

Steve Johnson – *N Brown – Chief Executive Officer*

Sure. Well, listen, thank you for joining and for those on the webcast thank you for listening. I think the key three messages are really simple. Earnings are on track despite the sort of challenging market conditions. In the first half, we created free cash flow despite investing in a strategic transformation, which is significant, and actually our strategic change is all on track. So we as a business are feeling relatively confident about the future. So with that, I thank you for your time and look forward to speaking to you again soon.

[end of transcript]