

N Brown FY23 Results Presentation Transcript 6 June 2023

Steve Johnson:

Good morning everybody and welcome to N Brown's preliminary results for the 53 weeks ended 4th March 2023. I am joined by Dominic Appleton, our incoming CFO, who I'd like to welcome to N Brown.

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 FY23 and the outlook and guidance for FY24. I will then return to talk in a little more detail about our KPIs and our strategic progress. After that, we'll open up to Q&A. This has been another year of strategic progress across the evolved pillars we announced a year ago. We launched a new trading website to Simply Be customers in September, a key investment in our digital transformation, providing a mobile-first experience for customers, reducing friction through the navigation and checkout.

Looking ahead, we continue to build on these pillars and have committed to a number of transformational priorities for FY24 and beyond, including rolling out the new websites for Jacamo and JD Williams, and the delivery of our new financial services platform. I'll talk more about this later on.

Last year was characterised by the normalising of consumer trends post the impact of the pandemic, and the new challenges of a high inflation environment. Cost of living pressures have impacted consumer confidence and their available spend; weighted for our category mix, the non-food online market reduced by around 5% over the prior year. Alongside this, we have faced the impact of inflation on our cost base.

We have met these challenging conditions by taking decisive action to mitigate these – and as a result, have continued to make progress across our business, balancing operational resilience with successfully continuing our strategic transformation.

Although reported product revenue is down by around 7%, we've been disciplined in our trading approach. We haven't aggressively chased sales, and have seen average item values increase by 12%, which partially offset softer website sessions and conversion.

Softer product revenue trends seen in Q4 FY23 have continued into the start of FY24 and we expect that the market for discretionary products will remain under pressure in FY24. As a result we are guiding to only a slight improvement in the rate of product revenue decline in FY24 over that seen in FY23. Alongside this, though we expect an improvement in product margin, this is likely to be more than offset by headwinds on the ratio of operating costs to revenue, together causing a net drag of around 1ppt on EBITDA margin over FY23.

However, despite making a full and final settlement to Allianz in the year, we have continued to have a strong balance sheet, with total accessible liquidity of £112m at 6th May.

We remain confident in our previously outlined strategy. However, to deliver on this we need to prioritise what makes the most impact and execute these things better and faster. By the end of calendar year 2024 we expect to have built the majority of the foundational capabilities needed for

the business to grasp that opportunity. I'll come back and talk about our five transformational priorities, and our work to deliver these, a little later on.

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

Dominic Appleton:

Thank you, Steve. I'm delighted to have joined N Brown, and I am excited about delivering our strategic plan and the future of the business.

Let me start with giving you a summary of the Group's financial performance in the year. As a reminder, the year ended 4 March 2023 included a 53rd week, and the results we're talking to on this page include the extra week against last year's 52 weeks. A detailed comparison of the 52nd and 53rd week figures is available in the appendix, and when we come to the revenue detail, we'll talk to these on a 52 week basis.

Overall, Group Revenue was down circa £49m, driven by a combination of both lower product revenue, reflecting the challenging online retail conditions, and lower financial services interest income reflecting the smaller customer loanbook, from the start of the year and softer retail sales through the period.

Gross Profit Margin has declined 3.1 percentage points, materially driven by the FS margin rate post Covid-19, normalising. Last year we had exceptionally elevated FS margins, as write offs were abnormally low, and as a result, we released the majority of the initial Covid-19 bad debt provision. This has been partially offset by solid growth in the retail gross margin. I'll talk in more detail about both these swings later.

Our opex costs to sales ratio has remained below the pre pandemic level of c40%. Against last year, we saw a c. 2ppt increase in the ratio, due to lower operational leverage. Within the absolute spend, we've absorbed an impact of around 2ppt, as a result of inflationary headwinds, through contract management and volume flexibility.

The lower gross margin, materially driven by the FS normalisation, together with the net of lower product revenue but at a stronger margin rate, led to an adjusted EBITDA of £57.3m, c. £38m lower than the prior year, but in line with Board expectations and market consensus.

Below EBITDA, we saw a £2.4m reduction in depreciation & amortisation following last year's acceleration of amortisation & Software as a service change. We successfully held interest costs flat, giving an adjusted profit before tax of £7.5m, down c.£36m on the prior year.

We have also had material adjusting items this year. As previously announced we reached full and final settlement with Allianz, which resulted in a £26m adjusting item in the year. We have also taken a non-cash impairment of £53m in the year, driven by the impact of the challenging macroeconomic environment on the FY23 exit run rate and our future financial forecasts, which I'll talk through later.

Unsecured net cash was £9m down on prior year, at £36m, which largely reflects the impact of the cash payment for full and final settlement of the litigation with Allianz. Despite this, the balance sheet

continues to be strong, with total accessible liquidity of £112m at 6th May. Finally, Adjusted EPS of 1.81p reflects the profit performance during the year.

You'll see from this slide that the majority of the EBITDA reduction has come from an absolute reduction in FS gross profit. This is due in part, to the smaller loanbook size coming into the year and continuation of this through lower product revenue performance, though the majority is due to post Covid-19 normalisation, with the prior year including abnormally low levels of write offs and the release of most of the Covid-19 expected credit loss provision that we put aside at the start of the pandemic.

Absolute gross profit in retail was down only £6m as we offset most of the market driven volumes impact through a disciplined approach to trading and margins, which I will talk more about later. We have continued to control costs well, mitigating inflationary impacts, which cost c £15m, and managing volume reductions through the cost base, leaving costs lower by £2m against last year.

Turning to the revenue performance, firstly, as I just mentioned, we're showing these on a 52 week basis for better comparability, without the 53rd week. The context of the market and weaker UK consumer confidence is important. Over the year, the BRC's online non-food market tracker showed an 8ppts drop in sales. If we adjust that for our product mix, which is more heavily womenswear and less electricals, our market dropped by about 5ppts. Our strategic brands performed in line with that adjusted market performance, contracting by 5%, and we have continued to strategically develop these, 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.

We have been disciplined in our approach to trading and preserving margins and took the decision not to aggressively drive volumes. As we flagged in our January update, we expected Quarter 4 to be softer as we took a rational approach to trading through this quieter period post peak; this is evident in the quarterly performance we have presented here. I'll come onto the positive product margin rate next and Steve will pick up on the growth in average item values.

So, mitigating the lower volumes, product gross margin rate has improved, building on gains shown in the last 2 halves, with the full year rate up 1.8%pts versus last year. This is part of the strategic change in the business where we are anchoring sensible levels of margin and profitability, rather than growth at any cost.

Looking at what has driven that, firstly, a pricing and mix benefit of c. 2%pts from a combination of; reduced promotional levels as we have traded in a disciplined manner and not chased volumes, increasing prices in a measured data led way in response to cost inflation, the mix back into clothing, which has a higher margin than home, and updating the way we work with some of our third parties. Secondly, due to normalising levels of write offs in Financial Services, we have claimed back a higher amount of associated VAT Bad Debt Relief. 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 Product Gross Margin by c1%pt. Thirdly, partially offsetting this, we've seen flow through of higher freight rates with a drag of around 50 basis points, an improvement on the position at the half year. Finally, there was a further 1%pt adverse impact, which primarily relates to additional stock provisioning covering year end stock being higher than normal for the forward level of sales. The

proportion of current stock versus prior season has improved year-on-year and we are also carefully managing inventory intake.

Looking at the FX impact, we buy most of our retail stock in \$. We were fully hedged in the year, without which we would have seen an adverse impact on gross margin rate of around 2ppt. In the FS business, the interest income reduced 4.3% due to the smaller debtor book. In turn, the debtor book reflects the lower opening position and the lower product revenue during the year. When we look at how the debtor book has moved against the product revenue trend over the last few years, it's actually been really robust and generally declining more slowly than product revenue. This gives us confidence that the debtor book growth is likely to follow when product revenue returns to growth.

I'll also flag here the strategic decision which we took this year to defer an element of the annual payment arrangement debt sale. Through improved data usage, we have retained an element to either enable customers to return to trade or a higher price to be achieved in the medium term. We have shown this element of the debtor balance separately on the chart.

The Group's adjusted Gross Margin was 46.2%, compared to 49.3% in FY22, and that swing is materially driven by the FS rate normalising post Covid-19. Within our FY22 year end results, we outlined the elevated financial services margin rate seen in that year.

Now that we have normalised, the year-on-year change has been seen in two ways, firstly, a release of c. £14m of the extra overlaid Covid-19 additional credit loss provision from year 1 of the pandemic as it was no longer required. Customer behaviour was actually better than expected and so caused a one-off benefit to reported margin last year with a delta for this year's versus last year's comparative of circa 6ppts. Secondly, in H1 last year we also saw a lower-than-normal level of write-offs, as customers had been supported through the pandemic with government schemes, which resulted in low defaults and arrears across all the consumer credit market. This year has been more normal, so the last year comparative shows that impact of around 6ppts.

Our provision rate has increased from 11.9% at prior year end to 13.4%. The change in the debt sale strategy, which I explained on the previous slide, is the main driver behind this, as these payment arrangement balances are provided at a higher rate than the receivables not on a payment arrangement.

On Adjusted Operating Costs, we have reduced our costs by £2m in the year despite an inflationary price headwind of £15m. We have done this through £17m of lower variable costs as our model has flexed with the lower volumes we have seen. We have continued to hold our Adjusted Operating Costs ratio below pre-Covid levels. On a 1 year basis we have seen an increase in the ratio. Some of this is operational gearing, with the lower revenue impacting the cost ratio for our fixed costs.

Looking at the individual areas, Admin and Payroll has increased by around £6m over the prior year driven by inflationary impacts of £5m. Combined with the operational deleverage, this is the area which has seen pressure on the ratio. Marketing and Production and Warehouse and Fulfilment have each broadly flexed with the lower revenues, as the inflationary impacts have been offset by higher average order values on volumes.

The slide shows adjusting items of around £88m. It's important to note that £53m of this is non-cash and relating to the impairment of intangible and plant and equipment assets. The impairment reflects

macroeconomic conditions and the exit run rate for FY23 lowering the start point for forward financial forecasts. Accounting standard IAS 36 requires that the discounted value of financial forecasts are compared to net assets value. The discounted value of the forecasts is lower than our net assets and therefore results in the impairment which has been allocated on a pro-rata basis against intangible and plant and equipment assets. This is an accounting assessment rather than a market valuation of the business.

The other main item relates to the full and final settlement in respect to the legal dispute with Allianz. The charge taken in the year reflects the additional amount required to cover the settlement and legal costs to completion. This removes a significant amount of uncertainty and distraction from the business.

We have also incurred restructuring costs in the year across operations and head office, reflecting lower order levels. In addition, adjusting items include litigation costs relating to legacy customer claims and associated committed legal costs.

This slide shows how EBITDA of £57m has converted to a positive underlying net cash generation position of £11m, which is pleasing given the difficult trading conditions. Starting on the left at the top, we have seen an outflow of around £12m which includes investment in inventory. The inventory increase is around £7m, driven by higher freight rates and input costs, with similar underlying unit volumes year-on-year. Also within this caption are some reductions in trade payables and accruals. The customer loan book and securitisation borrowings in financial services have resulted in a cash inflow, with the net loanbook size having reduced somewhat and generating a net cash return.

Non-operational cash outflows of £40m include a well-managed step-up in capital investment to £26m and interest costs. With regards to interest rates, in the prior year we entered into an interest rate swap to a notional value of £250m fixing SONIA interest rates through to the end of December 2024. This provided a £4m cash benefit relative to if this had not been in place. The change in the approach to the debt sale has reduced cash inflows by £14m in comparison to the previous strategy. This decision was taken with a view to maximising value to the business and so is a one-off in-year impact rather than a permanent hit.

The 53rd week resulted in an additional month's payroll falling into the year, as well as other cash payments, totalling £9m. Adjusting items are driven by the cash payment made to Allianz in January. We have also returned to the normal operating procedure of fully drawing on the securitisation facility relative to the loan book size, and all of this has given us a net cash outflow of £8m. 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 £35.5m at the year end. Last year, we had an unsecured net cash position of £43.1m and £60.1m voluntarily underdrawn on the securitisation facility which was accessible. Combined, this reflected a figure of just over £100m. The cash reduction in the year is largely driven by the 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 £333m is well covered by customer debtor balances, with our gross debtor book being £555m at year end.

Taking the strong corporate net cash position together with the well-balanced FS securitisation, we have net debt of £297m which has increased over last year in line with the one-off payment we have made. 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. We have total accessible liquidity in excess of £140m at year end and £112m as at 6th May, with the latter reflecting the refinancing of the RCF which took place post year end.

Now looking ahead to the FY24 outlook and guidance. We have seen uncertainty around macroeconomic conditions and low consumer confidence and expect these to continue throughout FY24. In the context of this backdrop, we have commenced FY24 with lower active customers, and performance has been further impacted in Q1 FY24 due to unseasonably cold and wet weather reducing demand for our spring summer ranges. Q1 also annualises against a strong Q1 FY23. As a result, product revenue momentum, which was 17.8% lower in Q4 FY23, has broadly continued into Q1 FY24.

We currently expect full year product revenue in FY24 to decline at a slightly more favourable rate to the 8.4% decline seen across FY23's 52 week performance. We expect to deliver product margin improvements through further increases in clothing mix, and a greater proportion of full price sales, supported by optimised pricing strategies which utilise our improving data usage, as well as normalising freight rates. Clothing and footwear remains the heartland of the business, where we see the most opportunity for future growth. We also remain well hedged on foreign exchange for FY24.

The customer loan book opened the year lower than prior year. Combined with our expectations for product revenue, we currently expect FS revenue to decline at a rate slightly adverse to the 4.3% seen in FY23's 52 week performance. Financial Services gross margin normalised in FY23.

We expect a further increase in adjusted operating costs to Group revenue as a result of ongoing inflationary pressures but we continue to have management actions planned to mitigate where possible.

As a result of the combination of gross margin improvements and headwinds in adjusted operating costs, we currently expect a reduction of around 1ppt in Adjusted EBITDA margin versus our FY23 52 week level of 8.2%.

Following the impairment of our intangible assets and plant and equipment in FY23, we will see approximately £15m lower amortisation in the year.

The business continues to be well positioned to invest in and deliver strategic change, and we plan to step-up investment aligned to our transformational priorities in FY24. We will continue to self-fund investment through carefully managed cash flows, including tight control and right-sizing of stock. At the end of FY24, we expect net debt to be slightly better than FY23's closing position. We remain confident in our strategic direction and our digital transformation as we focus on driving sustainable profitable growth.

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

Steve Johnson:

Thank you, Dominic. I'll now talk about some of the strategic highlights from the year. We have made good progress across each of our strategic pillars in the year.

Within *Build a differentiated brand portfolio*, we have continued to iterate our creative to better represent the brand positioning. A considerable amount of work has been undertaken this year to build stronger identities and points of differentiation for the strategic brands in our portfolio. For Simply Be, we launched a new creative campaign, "The Fit Revolution", which was delivered via a new media approach which saw us move away from traditional TV advertising, and switch to more impactful digital video, social, out of home and influencers.

We also launched our JD Williams "Collections" campaign, and supported this with specific activity showcasing how our financial services offer makes our collections more accessible to our customer. We launched the Collections campaign with an updated media approach in Spring/Summer working alongside our brand ambassadors, Davina McCall and Amanda Holden, and will evolve this approach further in the Autumn/Winter season.

With Jacamo, we continued to champion inclusivity through the launch of our "Every Man" creative campaign. This was accompanied by a new media approach where we aligned our ongoing communications and storytelling with the new "Every Man" creative.

Our heritage brand portfolio is focused on the retention and retrade of existing customers and, in particular, loyal credit customers. These brands are now managed by a dedicated team to create operational focus and clarity, separate from the strategic brands which we are seeking to accelerate.

Now, moving onto *elevate the fashion and fintech proposition*. In line with our vision of inclusivity, we have extended the size range across our product portfolio, introducing smaller sizes, ensuring accessibility of our fantastic product to all. Our teams have reduced the historic syndication across strategic brands, replacing it with own label product that is designed and bought specifically for Simply Be, JD Williams and Jacamo. This product is now distinct and bespoke to each brand, strengthening our unique, brand-aligned proposition across our product offering. We welcomed some fantastic third-party brands across our strategic brands during the year, carefully selected to complement our own product offering, particularly important on our platforms of JD Williams and Jacamo.

In Financial Services, we rebranded our JD Williams credit offer to "JDW Pay", communicated through direct mail campaigns, which attracted over 20,000 new credit customers. Building on learnings from this, we later rebranded our Simply Be credit offer as "Pay Simply Be".

Now onto *Transform the customer experience*. As mentioned earlier, we have launched the new website for Simply Be, which aims to deliver a more seamless customer experience, so shoppers are able to navigate the site, have a frictionless checkout experience and receive the same rich mobile experience across any device. It is already 18% faster than any of our other websites and we will continue to improve this.

Native checkout, which allows customers to pay directly through our app, rather than being redirected to the website, was launched for mobile users across Android and iOS. Native checkout creates a

smoother user experience, fewer errors and abandoned carts at point of payment, providing a faster checkout.

On *Win with our target customer*, we have invested in new marketing channels in order to better attract our target customers. We built a customer bidding algorithm to target prospective customers interested in purchasing our products through our credit with branded display advertisements. Of the new customers that were recruited through this channel, 80% went on to purchase using our credit proposition. We also rebuilt our Customer Lifetime Value Model to give us more accurate customer data, so that we can better understand our base and how to improve customer targeting and personalisation.

In *Establish data as an asset to win*, we have largely achieved our target operating model by establishing a Group data function, as part of our desire to drive a data culture. We have plugged capability gaps with key hires and aligned this with the organisation's agile way of working. Strategic hires, including three Heads of Data across Engineering, Analytics, and Visualization have fortified our internal capabilities.

We saw huge success with the build of our internal tool Pricetagger, which helps us to promote product optimally using pricing elasticity curves; this has now been rolled out to all clothing promotions.

We continue to provide a range of digital customer metrics to help track the progress of our business. It's been a challenging trading period and the impacts of this, as well as some of the mitigants are reflected in the KPIs. However, I am confident that as we move forward with strategic change, there's plenty of opportunity for further progress.

Today I'll talk through four of the KPIs. First, is the number of orders, which is 15% lower than the prior year. This is the result of a combination of lower website sessions and conversion due to a challenging online non-food market, as well as the impact of significant inflationary pressure on performance marketing.

Second, average item value rose by 12%. The impact on consumer demand of a more subdued backdrop has been partially mitigated through measured price increases, increased product mix within higher value categories, and promotional discipline.

Third, is our total active customers. The number of customers who have been active with us in the last 12 months has declined as we previously flagged, this reflects lower re-trade rates.

Fourthly, our arrears rates are up 0.7%pts against last year, reflecting a return to pre-pandemic levels in H2 following abnormally low rates last year, but remain well controlled.

At N Brown we are fully committed to embedding sustainability throughout the organisation, our product ranges and all our processes and continue to progress with SUSTAIN, our sustainability strategy. Developments in the year include responsibly sourced product now making up 41% of our own-brand clothing and home textile ranges, up over 10ppt in the year and as we target 100% by 2030 in line with our Textiles 2030 commitment.

We have submitted our science based target to the Science Based Target initiative, with validation due in October 2023. The proposed target is aligned with the 1.5°C pathway of the Paris agreement.

We have concluded our four-year charity partnership with Maggie's, raising over £180,000 and have now launched new charity partnerships with Retail Trust and FareShare Greater Manchester. We have also implemented a new Diversity, Equity and Inclusion policy, "EMBRACE", across the Group.

Now, as highlighted earlier, I will turn back to our transformational priorities committed for FY24 and beyond. These are focus areas looking ahead, which we believe will deliver the biggest benefits. 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 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 purchase, 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. To execute this transformation we will have a managed step-up in the level of capital investment in our transformation over last year and which we will continue to self-fund.

The high inflationary environment during the year has required us to adapt, but despite this, we have continued to have confidence to invest in our strategy. We have now set our priorities for FY24 and beyond and we will step up investment – our ability to do so is underpinned by a strong balance sheet. In an online market which declined year-on-year, we believe that we made the right decisions around trading, driving some mitigation through average item values and retail margins, leading to only a relatively small decline in product gross profit and an increase in product gross profit margin. Meanwhile, we flexed our cost base with volumes, offsetting where possible, significant inflationary impacts. We've normalised against abnormal Financial Services dynamics in recent years as our customers transitioned through the pandemic, and this is what has driven the lower year-on-year EBITDA.

Looking ahead, we remain cautious about the UK discretionary goods market but we'll continue to trade through this with discipline whilst continuing to make progress with our strategy, focussed on the transformational priorities which we are clear on.

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.

Conference Call Operator:

Thank you, sir. 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 you signal to reach the equipment. Again, just press star one to ask a question. I will pause for just a moment to allow you to signal.

And I have a question from Clive Black from Shore Capital, please go ahead. Your line is open.

Clive Black, Shore Capital:

Thank you. I hope you can hear me okay. Thanks for the presentation. I just thought it worthwhile understanding a little bit more about what the upgraded FS platform actually brings to A customers, and B to N Brown commercially. Given the magnitude and the time for which it's been taken to implement, that would be my first question. Thank you.

Steve Johnson:

Hi Clive. Thanks for the question. So I think if you can bare with me for 2 seconds in setting the scene and answering the question, I think it's important to take a step back and just really reflect on what we're doing here. I mean, this is a business that's been around forever, 160 years. It's been successful in the past, but it's a legacy business. And what we're doing is taking that success and we're making it the modern equivalent. So in doing so, we have to transform everything because it was a catalogue business driving lots of different processes and lots of different products for our customers. So we've gone about a lot of change to build sustainable cash flows in the future. So we've always been medium term focussed. We are delivering on our priorities and that will generate higher levels of earnings more generally but creating better cash flows in the future. And that that's what we're trying to do and we're quite a distance down it now and we're feeling a bit more confident about saying we're quite a distance down it and the large majority of these capabilities will be delivered by the back end of calendar year 24 going into March 25.

Now the reason why I start with that is because the way that I see value creation is by effectively delivering capability, and that capability marries up across the piece. It's about changing the ways of working at the same time as changing the platforms. But fundamentally, what we're trying to do is create capabilities so that colleagues can change things. And the way of working, with the Agile methodology, and the new financial services platform means that things can be adapted. And at the moment we can't adapt them anywhere near the speed that we need to. We operate on a mainframe system which we're moving away from as we move to new websites, and that operates with a change program, which is effectively a batch change program. And colleagues therefore are not empowered to enable them to make changes to increase the experience of the customers through the websites. So as we deliver, which we are doing with the new website for Simply Be which is already live. The website for Jacamo, we're in a test mode at the moment and it is actually live with some customers. So on that side you've got the retail capability so you can change things.

On the financial services side of things. Well, effectively we're creating an adaptable platform that allows colleagues to launch new products as they go forward. And we will create squads and tribes and we'll give them an objective. And that objective will be in an OKR framework and colleagues will create the right products for the customers because they've got something that they can change and adapt. So therefore the value comes in speed in enabling those capabilities. And, you know, we do feel that the business has a good future once we get these things through.

Clive Black, Shore Capital:

And in terms of therefore, I can see the commercial benefit, therefore, and strategic benefits business. In terms of practicality or practical outcomes for the shopper from the FS platform. What will that mean in sort of simple terms?

Steve Johnson:

So in simple terms, we will launch something that's sort of modern in relation to the experience that we create for customers. And in simple terms, we will have the ability to launch new products. Which could look like products that you see in a market. We haven't gone through that process yet. We will be able to launch new products and there's a whole set of conversations to have with our customer

base to understand what is relevant for them. And once we've landed the platform, we'll be in the process of that. But fundamentally, I think what we can see going forward is a platform that is adaptable. It's mobile first, quickly can change, that can change the experience that they create on a daily basis, and they will have access to launch new products as we deem fit for the business. And at this stage we're working through that process.

Clive Black, Shore Capital:

So that includes things like variable interest rates because it's been very rigid up to now, hasn't it?

Steve Johnson:

Yeah. I mean, we can do different pricing for customers. We do do different pricing for customers. We've got a headline rate, but we do do different pricing for customers. But yes, variable rates will be looking at different ones, different products. And again, we'll get into the methodology of launching new products and a new product development cycle. And we can't do that at the moment. And, you know, I'm really excited about when that comes along.

Equally, you know, let me think about the product information management system. You know, colleagues in this business currently pull together data across four to five spreadsheets, which effectively creates the information that you see on our websites, because that's how the old catalogue system worked. Now when we launch the new product information management system, you know, that creates better information, clearer information, more consistent information and improves the experience of customers when they go to try and buy the products from the site. But it gives us SEO benefits, which we're not currently getting either. So from my perspective, the search capability that we can move forward on that is hugely exciting, similar to all of the other things that we're delivering.

So a combination of improving our data capabilities, launching a new FS platform, launching new websites, changing our ways of working, launching a new product information management system. We've separated the business so that we have no syndication on products anymore, and that's a big, big step forward. So we have individual customer brands now that we are getting after and we've got three that we want to grow and a bunch of heritage brands that are in managed decline. It's separated in the organisation and actually even buying the right products rather than selling the same products. Every brand is going to take us forward. So there's so much, there's so much that we can look forward to and, you know, there's many opportunities in this business.

Clive Black, Shore Capital:

So I think that's a very comprehensive answer. Thank you. I'll let someone else ask the question and then I'll I've got one or two more. Thank you.

Steve Johnson:

Okay.

Conference Call Operator:

Thank you. As a reminder to ask a question, please signal by pressing star one on your telephone keypad. I will pause for just a moment to allow you to signal. And we have a follow up question from Clive Black from Shore Capital, please go ahead with your questions.

Darren Shirley, Shore Capital:

Yeah, actually, gents, it's Darren Shirley here on the conference line. Hiya. You highlighted one of the headwinds in the last financial year was obviously inflation and costs. And I think you talked about 15 million headwind you offset. I mean, how do you see the cost headwinds or tailwinds going forward in the main sort of through the supply chain, though, some sort of source of international freight, local

labour energy? Just give us a flavour of how you see those headwinds into the current year. And can you give us an equivalent of that 15 million for the current year if possible?

Steve Johnson:

Yeah, sure. I mean, it's a conversation that obviously, we spend a bit of time on, you know, we are seeing some upsides to counteract some of the downsides, so Freight costs, for example are definitely going in the right direction. And you know, what we need is CPI to come under control for the next twelve months. And that's effectively where we're sort of guiding to be a little bit cautious over the next 12 months. But fundamentally, you know, we do see that washing through into the calendar year 2024. And so hopefully we'll sort of move on from there. But Dominic I don't know if you want to give a perspective on that.

Dominic Appleton:

Yeah, thanks Steven. Thanks Darren for the question. I think what we're seeing is a continuing trend around inflation as we move into FY24, specifically around labour inflation Darren, in utilities inflation. As Steve has already said, we are starting to see freight cost reduced, but we are continuing to see labour inflation come through and utility inflation to come through at a similar magnitude to what we've seen in the prior year.

Darren Shirley, Shore Capital:

So if you were to look at that sort of 15 million, is that sort of 5 to 10 maybe this year as a headwind? Or are we still looking at double digits?

Dominic Appleton:

No, it's a similar magnitude. It's probably the same.

Darren Shirley, Shore Capital:

Okay. Okay. That that's interesting. And obviously, you've been keeping a tight control in terms of your your marketing spend over the past 12 months and then maybe a little bit longer. How are you seeing that market in terms of costs, etc.? I expect you to turn the tap on once all the systems and capabilities are brought to the fore. How would you characterise the sort of cost environment that you're dealing with or will be dealing with?

Steve Johnson:

Well, we've certainly seen inflation running through over the last 12 months, particularly in performance marketing. But I think at the moment we're quite happy with the approaches that we're taking. We are moving to different types of media and ways of marketing our products, as I talked about in the presentation. And actually, you know, this is a great period for us to learn quite a lot.

And as you've made the point Darren, when things are in a good place, which, you know, again, I'll just reiterate that we believe the majority of these capabilities will be in place, based on what we know today, towards the back end of calendar year 2024. I mean, I see the early 2025, we may, to your point, get very confident and start to push the business on from there. And that's always been the intention. But we have some level of inefficiency. And again, I use the example that we talked earlier on about in relation to the way that we have to put product information on our websites. It's quite inefficient and therefore we lose natural search and therefore we can't get the benefit of the other cost advantages from efficiency in that space. And therefore we're only sort of spending to the point where it's profitable.

Now, if we improve the efficiency of all those things, then it doesn't necessarily follow that you have to all of a sudden spend a shedload of money and you actually start to get the bigger bang for your buck and our customer lifetime value models, hopefully that would enable us to go a bit harder and a

bit faster and spend a bit more. But it's not just about what you spend. It's about the efficiency of what you get back. So I think from my perspective, I'm looking forward to delivering on these things and then we can hopefully sort of step forward from that.

Darren Shirley, Shore Capital:

No, that's encouraging. And just one more, if you don't mind. You're obviously guiding, you did a pleasing increase in terms of your product gross margin in the past 12 months, which is in contrast with some of your maybe some sort of bigger general merchandise peers and you're again guiding to some positive progress over the next 12 months. Again, in contrast to some of your European apparel peers, what you think is unique to N Brown at this moment in time that you're able to deliver that to those margin increases?

Steve Johnson:

I think there's probably two answers. And so first of all, we are seeing some supply side distribution benefits in terms of the freight costs that we talked about earlier on. So that gives a little bit of confidence.

But actually the main thing, is the progress that we're actually making in relation to our products and specifically with the use of data and specifically with the change in ways of working where we have data colleagues sat within tribes working with the general manager of Simply Be and identifying, for example, that we have been able to actually reduce some of our opening price points in our more basic range, but because we can fund it through perhaps a bit of inefficiency in relation to our pricing in the better and best range. And therefore we've got some level of confidence based on the analytical approach that we've taken that we can continue to grow that margin rate now. That's how we see it today. And what we have learned in the last few years is that the market has been quite volatile. But as we see it today, we're confident we can see a path to improving the margin rate.

Darren Shirley, Shore Capital:

Okay. Thanks for that, Steven. Good luck.

Steve Johnson:

Okay. Thanks for the questions, Darren.

Conference Call Operator:

Thank you. And as a final reminder to ask the 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 the line of Clive Black from Shore Capital. Please go ahead.

Clive Black, Shore Capital:

Yeah, this just the last question, guys. Just wondering what your CapEx priorities are for 2024, where you're going to be actually allocating the capital expenditure.

Steve Johnson:

I'll give you the high level version and I'll hand over to Dominic. But the way that we think about is run, grow and transform. So running is keeping the business running - it's compliance projects, server upgrades, etc.. Grow is day to day activity, sort of call it tactical trading activity, and transform is where the majority of the money is. So the way that we think about it is about 30% is in run, 10% is in grow and 60% is in transform. So the large majority of the money is being spent delivering these capabilities so we can move this business forward. I don't know Dominic if there's any further detail you want to give, but that's how I keep a simple view of it.

Dominic Appleton:

Yes, absolutely Steve. That's 30% run, 10% growth, 60% transform. And if you think about this transform, which is the biggest element, it's all about building that strategic capability that we talked about earlier around the FS platform, the new front end and the data systems where our primary focus for this year lies at.

Clive Black, Shore Capital:

Okay. That's really helpful to get the context and good to hear that the FS platform will be spent on this year. Thanks.

Conference Call Operator:

Thank you. As there are no further questions in the queue, I would like to turn the call back over to Steve Johnson, CEO for any additional or closing remarks. Over to you, sir.

Steve Johnson:

I'd just like to say thank you for joining the call and thank you particularly for the questions.

We're a resilient business and we are navigating short term trading challenges as well as continuing to transform a legacy organisation. But we are starting to deliver some stuff and we can see it. And you know, people in the business are excited about where we could take it. And I look forward to speaking to you again in due course. Thank you.

Conference Call Operator:

Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.