

N Brown Q3 Trading Update FY22 - Conference Call, 20 January 2022

Steve Johnson:

Good morning, everyone, and thank you for joining the trading update call. This is Steve and also with me is Rachel.

Rachel Izzard:

Morning.

Steve Johnson:

I do hope you're all safe and well, first of all. Turning to this morning's statement, I'm sure you've all read it, but let me cover the main points before opening up to Q&A.

Our product revenue has shown continued growth from the five strategic brands. In the quarter, our product revenue from strategic brands grew by 5.5 percent within the year to date in double-digit growth. Excluding the drag we are seeing from annualizing against the Figleaves closure, our total product revenue was slightly ahead of the prior year in the quarter and up about 5 percent on last year at the year to date.

Clothing and footwear continued its resurgence into the quarter with growth in demand of plus 18 percent, including increased demand for dresses, formalwear, and outerwear, demonstrating the appeal of our strengthened product offer.

Consistent with well-publicized trends in the market, home and gift faced tough comparatives from the prior year, which included periods of lockdown and a softer online home market than previously expected. This led to a 19 percent decline in demand, and we also saw a naturally higher level of returns from the move back into the clothing categories and higher returning segments such as dresses.

Pleasingly, total active customers have returned to year-on-year growth, reflecting both improved customer retention rates and new customer acquisition. Simply Be, and Jacamo customers are at record levels.

Our financial services trajectory is steadily improving. The small decline in financial services revenue in the quarter is as expected from the lower debtor book at the start of the year and reflects a sequential improvement in the year-on-year trajectory each quarter this year. Customer behaviour is steadily returning to pre-COVID levels, and we continue to see the benefits of offering our customers a well-managed, flexible credit product.

In November, we appointed our Digital Chief Operating Officer. I'm delighted to have welcomed Nuno Miller to the team, who joins an executive management team that has been significantly refreshed over the last couple of years. Nuno is overseeing our ongoing digital transformation, including the development of our new front-end websites.

Moving to outlook and guidance. The strategic brands growth over peak was in the context of slightly softer than expected trading conditions in the online home market resulting in FY '22 year to date group revenue of minus 1.7 percent, slightly behind our previous expectations for the full year of broadly flat. We expect to report adjusted EBITDA of between 93 million and 96 million, which is at the lower end of the previously guided range reflecting the online market conditions and a slightly higher level of project spend now being expensed rather than capitalized. Net interest costs continue

to improve and are now expected to be circa 14 million. We expect CAPEX of circa 22 million, lower than previous guidance, inclusive of the slightly higher level of project spend now being expensed rather than capitalized. FY '22 year-end net debt is now expected to be in the range of 260 million to 265 million, an improvement on our previous guidance.

So, in summary, against the backdrop of a volatile consumer environment, supply chain issues, and COVID uncertainty, the continued growth of our strategic brands has been particularly pleasing, as has the return to growth in active customers.

We have continued to execute on our plan. Looking ahead, we'll continue our strategic investment to transform our business supported by a robust balance sheet and a strengthened exec team. And with that, I'll open to questions.

Operator:

Thank you. If you would like to ask a question, please press star followed by one on your telephone keypads now or the flag icon if you have joined us online. If you change your mind, please press star followed by two. When preparing to ask a question, please ensure your phone is unmuted locally. Our first question comes from Clive Black, Shore Capital. Mr. Black, your line is now open.

Clive Black:

Well, thank you, operator. Morning, Steve and Rachel. A few questions from me, if I may. First of all, could you give some colour on the JD Williams performance? We can see that Simply Be and Jacamo performed very well. Just wondering if you could give some colour on that one. And secondly, you're obviously pleased that new customers are coming into the brands. I just wondered to what extent they're embracing your credit offer, or are they sort of cash customers, so to speak? And then just lastly, you know, what do you see will be the sort of key benefit of the new Digital Chief Operating Officer, please? Thank you.

Steve Johnson:

Thanks, Clive. In relation to sort of brand space, we've not really gone through that in any great way. I mean, what I would say is that the benefits of the work that the guys have been doing and seeing it flow through into a significant improvement in clothing and footwear was definitely seen in JD Williams. And, you know, for that reason, we're quite positive about JD Williams; the flip side of that is obviously it's a multi-category brand as opposed to Jacamo and Simply Be. So, JD Williams is not immune to the sort of lack of demand for online home and tech, specifically, whereas this time last year, JD Williams obviously benefited from a sort of surge in that product. So, we're happy with the performance with JD Williams. We're very happy with the performance with Simply Be and Jacamo. Essentially, the clothing performance is very, very strong in all three of those brands. And we're pleased with the advertising that we've done with Amanda and Davina that has definitely improved our social media reach. And we would say that we're very happy with that at this point in time.

In terms of are we getting new credit or cash customers. I mean, we do look at this. But fundamentally, we are trying to transition our business away really from the concepts of credit and cash and more about customer lifetime value. So, we're looking for highly engaged customers, people who want to stay with us, shop more with us, put more in the basket with us. And actually, you know, we are seeing that the retention rates, as I sort of talked about in my update on a slight improvement, our returns rate looks at face value like it's moved down, it's actually when you look at it on a couple of years ago, it's an improvement in the underlying returns rate, which we talked to. And fundamentally, that is all pointing to a strengthened product offer. And that's where we sort of focus.

So, we're trying to get customers through the door who are interested in our product, who want to shop more with us. By proxy, credit customers do shop more with us, but we think more about customer lifetime value. And we'll share our digital metrics with you at the year-end.

And the final question was in relation to Nuno, I believe. And therefore, what we've done as a business over the last couple of years is starting to really transform it from, you know, heritage to being a sort of a powerful e-commerce business. Historically, the business had lots of different channels. So, right now, we're in the sort of mid-90s, where our entire customer base is shopping for it through digital channels, about 4-5 percent on the phone. Going forward, we've closed the opportunity for customers to open accounts on the phone, so it's 100 percent going forward. And therefore, the business is a pure-play e-commerce business. We've had agile working in our I.T. estate, and we brought Nuno in to help with a couple of things. First of all, you know, the transformation of our platforms, which you've heard me talk about previously, that's one of his objectives. We're making good progress on that, and I'll talk more about that at the year-end. And also, we want to transition the business from being an agile sort of I.T. business to being an agile business, operating around one set of objectives and a standard OKR, objective key result framework, for the entire organization. And Nuno's joining us to help with this transformation. I'm pleased with the start he's made. We are making progress on our platforms. We'll talk more at year-end on when we do our strategy update. Hopefully, that answers your question, Clive.

Clive Black:

Yeah. Thank you. Thank you very much, Steve.

Operator:

Thank you. As a reminder to ask any further questions, please press star followed by one on your telephone keypad or the flag icon if you have joined us online.

We currently have no further questions. I will hand it over back to Steve Johnson for any final remarks.

Steve Johnson:

Great. So, thank you for joining us. We sit in a business that is now growing its active customers again, with record-high active customers in Jacamo, Simply Be. I'm delighted with the progress of strategic brands, and I'm very happy with the progress that we're making in clothing and footwear. I think that speaks volumes to the performance that we've had in the business. So, thanks once again. Have a great day.

Rachel Izzard:

Thank you, everybody.

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